Table of Contents

Taxation

The following discussion of the material Cayman Islands and United States federal income tax consequences of an investment in our ADSs or common shares is based upon laws and relevant interpretations thereof in effect as of the date of this Registration Statement, all of which are subject to change. This discussion does not deal with all possible tax consequences relating to an investment in our ADSs or common shares, such as the tax consequences under state, local and other tax laws. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Conyers, Dill & Pearman, special Cayman Islands counsel to us. Based on the facts and subject to the limitations set forth herein, the statements of law or legal conclusions under the caption "—United States federal income taxation" constitute the opinion of Latham & Watkins LLP, our U.S. counsel, as to the material United States federal income tax consequences of an investment in the ADSs or common shares.

Cayman Islands taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

United States federal income taxation

The following discussion describes the material U.S. federal income tax consequences under present law of an investment in the ADSs or common shares. This discussion applies only to investors that hold the ADSs or common shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this Registration Statement and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this Registration Statement, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- certain financial institutions;
- insurance companies;
- broker dealers;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;

Table of Contents

- persons holding an ADS or common share as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of our voting stock; or
- persons holding ADSs or common shares through partnerships or other pass–through entities.

PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE AND LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ADSS OR COMMON SHARES.

The discussion below of the U.S. federal income tax consequences to "U.S. Holders" will apply if you are the beneficial owner of ADSs or common shares and you are, for U.S. federal income tax purposes,

- a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. If you hold ADSs, you should be treated as the holder of the underlying common shares represented by those ADSs for U.S. federal income tax purposes.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre–released may be taking actions that are inconsistent with the claiming, by U.S. Holders of ADSs, of foreign tax credits for U.S. federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non–corporate U.S. Holders, as described below. Accordingly, the availability of the reduced tax rate for dividends received by certain non–corporate U.S. Holders could be affected by future actions that may be taken by the U.S. Treasury.

Taxation of dividends and other distributions on the ADSs or common shares

Subject to the passive foreign investment company rules discussed below, the gross amount of our distributions to you with respect to the ADSs or common shares generally will be included in your gross income as dividend income on the date of receipt by the depositary, in the case of ADSs, or by you, in the case of common shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). The dividends will not be eligible for the dividends–received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

Table of Contents

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, for taxable years beginning before January 1, 2011, dividends may be taxed at the lower applicable capital gains rate provided that (1) the ADSs or common shares, as applicable, are readily tradable on an established securities market in the United States, (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. ADSs will be considered for purposes of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on Nasdaq Global Market. You should consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or common shares.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to the ADSs or common shares will generally constitute "passive category income" but could, in the case of certain U.S. Holders, constitute "general category income".

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your ADSs or common shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

Taxation of disposition of shares

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or common share equal to the difference between the amount realized (in U.S. dollars) for the ADS or common share and your tax basis (in U.S. dollars) in the ADS or common share. The gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. holder, including an individual who has held the ADS or common share for more than one year, you will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes.

Table of Contents

Passive foreign investment company
A non–U.S. corporation is considered a passive foreign investment company ("PFIC") for U.S. federal income tax purposes, for any taxable year if either:

- at least 75% of its gross income is passive income, or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

For this purpose, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

Although it is not clear how the contractual arrangements between us and our affiliated entities will be treated for purposes of the PFIC rules, we believe that we should not be treated as a PFIC for our current taxable year ending December 31, 2007 or for the foreseeable future. We must make a separate determination each year as to whether we are a PFIC. As a result, even if we are currently not a PFIC our PFIC status may change. Because PFIC status is a factual determination for each taxable year which cannot be made until the close of the taxable year, our U.S. counsel expresses no opinion with respect to our PFIC status for any taxable year. If we are a PFIC for any year during which you hold ADSs or common shares, we generally will continue to be treated as a PFIC for all succeeding years during which you hold ADSs or common shares.

If we are a PFIC for any taxable year during which you hold ADSs or common shares, you will be subject to special tax rules with respect to any "excess distribution" that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or common shares, unless you make a "mark–to–market" election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or common shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or common shares;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or "excess distribution" cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or common shares cannot be treated as capital, even if you hold the ADSs or common shares as capital assets.

Alternatively, a U.S. Holder of "marketable stock" in a PFIC may make a mark–to–market election for stock of a PFIC to elect out of the tax treatment discussed in the two preceding paragraphs. If you make a mark–to–market election for the ADSs or common shares, you will

include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or common shares as of the close of your taxable year over your adjusted basis in such ADSs or common shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or common shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark–to–market gains on the ADSs or common shares included in your income for prior taxable years. Amounts included in your income under a mark–to–market election, as well as gain on the actual sale or other disposition of the ADSs or common shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark–to–market loss on the ADSs or common shares, as well as to any loss realized on the actual sale or disposition of the ADSs or common shares, to the extent that the amount of such loss does not exceed the net mark–to–market gains previously included for such ADSs or common shares. Your basis in the ADSs or common shares will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower applicable capital gains rate discussed above under "Taxation of dividends and other distributions on the ADSs or common shares" would not apply.

The mark–to–market election is available only for stock which is regularly traded on a qualified exchange or other market, as defined in applicable U.S. Treasury Regulations. We expect that the ADSs will be listed on Nasdaq Global Market and, consequently, if you are a holder of ADSs the mark–to–market election would be available to you were we to be or become a PFIC.

In general, if a non–U.S. corporation is a PFIC, a holder of shares in that corporation may avoid taxation under the rules described above by making a "qualified electing fund" election to include its share of the corporation's income on a current basis, or a "deemed sale" election once the corporation no longer qualifies as a PFIC. However, you may make a qualified electing fund election with respect to your ADSs or common shares only if we agree to furnish you annually with certain tax information, and we do not presently intend to prepare or provide such information.

If you hold ADSs or common shares in any year in which we are a PFIC, you will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or common shares and any gain realized on the disposition of the ADSs or common shares.

You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in ADSs or common shares.

Information reporting and backup withholding

Dividend payments with respect to ADSs or common shares and proceeds from the sale, exchange or redemption of ADSs or common shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W–9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Table of Contents

Underwriting

We and the selling shareholders are offering the ADSs described in this prospectus through a number of underwriters, for whom J.P. Morgan Securities Inc. and UBS AG are acting as the representatives. J.P. Morgan Securities Inc. and UBS AG are also the global coordinators and bookrunners for this offering. We and the selling shareholders have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we and the selling shareholders have agreed to sell to the underwriters, and each underwriter has severally and not jointly agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the respective number of ADSs listed next to its name in the following table:

Name	Number of ADSs
J.P. Morgan Securities Inc.	13,846,153
UBS AG	6,923,077
CIBC World Markets Corp.	923,077
WR Hambrecht + Co., LLC	923,077
ABN AMRO Bank N.V., Hong Kong Branch and N M Rothschild & Sons (Hong Kong) Limited, each trading as ABN AMRO Rothschild	461,539
Total	23,076,923

The underwriting agreement provides that the obligations of the underwriters to pay for and accept delivery of the ADSs offered by this prospectus are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us, our counsel and the independent accountants. The underwriters are committed to purchase all of the ADSs offered by us and the selling shareholders if they purchase any ADS. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated. All sales of our ADSs in the United States will be made by U.S. registered broker/dealers. Sales of our ADSs outside the United States may be made by the underwriters directly or through their affiliated entities. ABN AMRO Bank N.V., Hong Kong Branch and N M Rothschild & Sons (Hong Kong) Limited, each trading as ABN AMRO Rothschild is expected to make offers and sales of the ADSs in the United States through its registered broker/dealer affiliate, ABN AMRO Rothschild LLC.

The underwriters propose to offer the ADSs directly to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of $0.55 per ADS. Any such dealers may resell ADSs to certain other brokers or dealers at a discount of up to $0.10 per ADS from the initial public offering price. After the initial public offering of the ADSs, the offering price and other selling terms may be changed by the underwriters. The representatives have advised us that the underwriters do not intend to confirm discretionary sales in excess of 5% of the ADSs offered in this offering.

At our request, the underwriters have reserved for sale, at the initial public offering price, up to an aggregate of 1,153,846 ADSs to certain directors, officers, employees and associates of our company through a directed share program. These reserved ADSs account for an aggregate of approximately 5% of the ADSs offered in the offering. Any ADSs not so purchased through

Table of Contents

the directed share program will be offered to the general public on the same basis as the ADSs offered hereby.

The underwriters have an option to buy from us up to 3,230,538 additional ADSs and from the selling shareholders up to 231,000 additional ADSs to cover sales of ADSs by the underwriters which exceed the number of ADSs specified in the table above. The underwriters have 30 days from the date of this prospectus to exercise this over–allotment option. If any ADSs are purchased with this over–allotment option, the underwriters will purchase the ADSs in approximately the same proportion as shown in the table above. If any additional ADSs are purchased, the underwriters will offer the additional ADSs on the same terms as those on which the ADSs are being offered.

The following table sets forth the per ADS and total underwriting discounts and commissions to be paid by us and the selling shareholders in connection with this offering. The amounts in the following table are shown assuming both no exercise and full exercise of the underwriters' over–allotment option.

Underwriting discounts and commissions

	Per ADS		Total	
To be paid by	**No exercise**	**Full exercise**	**No exercise**	**Full exercise**
Xinhua Finance Media	$ 0.91	$ 0.91	$ 15,750,210	$ 18,690,000
Selling shareholders	$ 0.91	$ 0.91	$ 5,249,790	$ 5,460,000

The underwriting discounts and commissions have been determined by negotiations among us, the selling shareholders and the representative and are a percentage of the offering price to the public. Among the factors considered in determining the discounts and commissions were the size of the offering, the nature of the security to be offered and the discounts and commissions charged in comparable transactions.

We have agreed that, without the prior written consent of the global coordinators, subject to certain exceptions, we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any of our ADSs or securities convertible into or exchangeable or exercisable for any of our ADSs, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing for a period of 180 days after the date of this prospectus. Notwithstanding the foregoing, if (1) during the last 17 days of the 180–day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (2) prior to the expiration of the 180–day restricted period, we announce that we will release earnings results during the 16–day period beginning on the last day of the 180–day period, the restrictions described above shall continue to apply until the expiration of the 18–day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

Our directors, executive officers, significant shareholders, certain warrant holders and certain option holders have entered into lock–up agreements with the underwriters prior to the commencement of this offering pursuant to which each of these persons or entities, with limited exceptions, for a period of 180 days after the date of this prospectus, may not, without the prior written consent of the global coordinators, (1) offer, pledge, announce the intention to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of,

Table of Contents

directly or indirectly, any of our ADSs (including, without limitation, ADSs or common shares which may be deemed to be beneficially owned with sole disposition power by such directors and executive officers in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a share option or warrant) or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our ADSs, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of ADSs or such other securities, in cash or otherwise. Notwithstanding the foregoing, if (1) during the last 17 days of the 180–day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (2) prior to the expiration of the 180–day restricted period, we announce that we will release earnings results during the 16–day period beginning on the last day of the 180–day period, the restrictions described above shall continue to apply until the expiration of the 18–day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

The underwriters have advised us that they have no present intent or arrangement to release any of the securities subject to these lock–up agreements. The release of any lock–up agreement is considered on a case by case basis. The underwriters have further advised us that the factors they would consider in determining whether to release shares subject to a lock–up agreement include, but are not limited to, the length of time before the lock–up agreement expires, the number of shares involved, the reasons for the requested release, market conditions, the trading price of our common shares, historical trading volumes of our common shares and whether the person seeking the release is an officer, director or other affiliate of us.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Our ADSs have been approved for quotation on Nasdaq Global Market under the symbol "XFML".

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, purchasing and selling ADSs in the open market for the purpose of preventing or retarding a decline in the market price of the ADSs while this offering is in progress. These stabilizing transactions may include making short sales of the ADSs, which involves the sale by the underwriters of a greater number of ADSs than they are required to purchase in this offering, and purchasing ADSs on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' over–allotment option referred to above, or may be "naked" shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their over–allotment option, in whole or in part, or by purchasing ADSs in the open market. In making this determination, the underwriters will consider, among other things, the price of ADSs available for purchase in the open market compared to the price at which the underwriters may purchase ADSs through the over–allotment option. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the ADSs in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase ADSs in the open market to cover the position.

Table of Contents

The underwriters have advised us that, pursuant to Regulation M of the Securities Act of 1933, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the ADSs, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase ADSs in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those ADSs as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the ADSs or preventing or retarding a decline in the market price of the ADSs, and, as a result, the price of the ADSs may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the Nasdaq Global Market or otherwise.

Prior to this offering, there has been no public market for our ADSs. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters. In determining the initial public offering price, we and the representatives of the underwriters considered a number of factors including:

- the information set forth in this prospectus and otherwise available to the representatives;
- our prospects and the history and prospects for the industry in which we compete;
- an assessment of our management;
- our prospects for future earnings;
- the general condition of the securities markets at the time of this offering;
- the recent market prices of, and demand for, publicly traded securities of generally comparable companies; and
- other factors deemed relevant by the underwriters and us.

Neither we nor the underwriters can assure investors that an active trading market will develop for our ADSs, or that the ADSs will trade in the public market at or above the initial public offering price.

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

The address of J.P. Morgan Securities Inc. is at 277 Park Avenue, New York, New York 10172 and the address of UBS AG is at 52/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. The address of CIBC World Markets Corp. is 300 Madison Ave., 4th floor, New York, New York 10017. The address of WR Hambrecht + Co., LLC is 539 Bryant Street, Suite 100, San Francisco, CA 94107. The address of ABN AMRO Bank N.V., Hong Kong Branch and N M Rothschild & Sons (Hong Kong) Limited, each trading as ABN AMRO Rothschild is 38/F Cheung Kong Center, 2 Queens Road Central, Hong Kong.

Table of Contents

Selling restrictions

General

No action has been or will be taken by us or by any underwriter in any jurisdiction except in the United States that would permit a public offering of our ADSs, or the possession, circulation or distribution of a prospectus or any other material relating to us and our ADSs in any country or jurisdiction where action for that purpose is required. Accordingly, our ADSs may not be offered or sold, directly or indirectly, and neither this prospectus nor any other material or advertisements in connection with this offering may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

We will not offer to sell any common shares or ADSs to any member of the public in the Cayman Islands.

This prospectus has not been approved by an authorized person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The ADSs have not been offered or sold, and prior to the expiry of a period of six months from the latest date of the issue of the ADSs, the ADSs may not be offered or sold to any persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses, or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, or the FSMA, in connection with the issue or sale of any ADSs except in circumstances in which section 21(I) of the FSMA does not apply.

The ADSs have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (1) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (2) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and there has not been any advertisement, invitation or document relating to the ADSs, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to ADSs which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made thereunder.

The ADSs have not been and will not be registered under the Securities and Exchange Law of Japan and have not, directly or indirectly, been offered or sold and will not, directly or indirectly, be offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re–offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable laws and regulations of Japan.

Table of Contents

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the ADSs may not be circulated or distributed, nor may the ADSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act Chapter 289 of Singapore, or the SFA, (ii) to a relevant person, or any person pursuant to Section 275 (1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.
Where the ADSs are subscribed or purchased under Section 275 by a relevant person, which is:

(a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the ADSs under Section 275 except:

(1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA;

(2) where no consideration is given for the transfer; or

(3) by operation of law.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), and effective as of the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), no ADS has been offered or will be offered to the public in that Relevant Member State, except that the ADSs may, with effect from and including the Relevant Implementation Date, be offered to the public in that Relevant Member State:

(A) in the period beginning on the date of publication of a prospectus in relation to the ADSs which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

(B) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(C) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet or more than

Table of Contents

€43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(D) at any time in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of ADSs to the public" in relation to any ADSs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the ADSs to be offered so as to enable an investor to decide to purchase or subscribe the ADSs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

No action may be taken in any jurisdiction other than the United States that would permit a public offering of the ADSs or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. Accordingly, the ADSs may not be offered or sold, directly or indirectly, and neither the prospectus nor any other offering material or advertisements in connection with the ADSs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Table of Contents

Expenses relating to this offering

Set forth below is an itemization of the total expenses, excluding underwriting discounts and commissions, that are expected to be incurred in connection with the offer and sale of the ADSs by us and the selling shareholders. With the exception of the Securities and Exchange Commission registration fee, the National Association of Securities Dealers, Inc. filing fee and the Nasdaq Global Market listing fee, all amounts are estimates.

Securities and Exchange Commission registration fee	$	11,407
Nasdaq Global Market listing fee		100,000
National Association of Securities Dealers, Inc. filing fee		30,500
Printing and engraving expenses		1,430,000
Legal fees and expenses		2,620,000
Accounting fees and expenses		1,740,000
Miscellaneous		283,349
Total	$	6,215,256

Expenses will be borne in proportion to the numbers of ADSs sold in the offering by us and the selling shareholders, respectively. The Bank of New York, as depositary, has agreed to reimburse us for certain expenses we incur that are related to the establishment and maintenance of the ADS program.

Table of Contents

Legal matters

The validity of the ADSs and certain other legal matters in connection with this offering will be passed upon for us by Latham & Watkins LLP. Certain legal matters in connection with this offering will be passed upon for the underwriters by Davis Polk & Wardwell. The validity of the common shares represented by the ADSs offered in this offering will be passed upon for us by Conyers Dill & Pearman. Legal matters as to PRC law will be passed upon for us by Commerce & Finance Law Offices and for the underwriters by Jingtian & Gongcheng Attorneys at Law. Latham & Watkins LLP may rely upon Conyers Dill & Pearman with respect to matters governed by Cayman Islands law and Commerce & Finance Law Offices with respect to matters governed by PRC law. Davis Polk & Wardwell may rely upon Conyers Dill & Pearman with respect to matters governed by Cayman Islands law and Jingtian & Gongcheng Attorneys at Law with respect to matters governed by PRC law.

Experts

The consolidated financial statements as of December 31, 2005 and 2006 and for the period from May 26, 2005 (date Xinhua Finance Limited acquired EconWorld Media Limited, the predecessor to Xinhua Finance Media Limited) to December 31, 2005 and for the year ended December 31, 2006 for Xinhua Finance Media Limited, included in this prospectus have been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report appearing herein, and is included in reliance upon the report of such firm given upon their authority as experts in auditing and accounting.

The consolidated financial statements as of December 31, 2004 and May 25, 2005 and for the year ended December 31, 2004 and the period from January 1, 2005 to May 25, 2005 for EconWorld Media Limited (the predecessor to Xinhua Finance Media Limited), included in this prospectus have been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report appearing herein, and is included in rcliance upon the report of such firm given upon their authority as experts in auditing and accounting.

The consolidated financial statements as of December 31, 2004 and September 8, 2005 and for the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period from January 1 to September 8, 2005 for Beijing Century Media Culture Co., Ltd., included in this prospectus have been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report appearing herein, and is included in reliance upon the report of such firm given upon their authority as experts in auditing and accounting.

The consolidated financial statements as of December 31, 2005 and for the period from December 21, 2005 (date Xinhua Finance Advertising Limited acquired Active Advertising Agency Limited, the predecessor to Xinhua Finance Advertising Limited) to December 31, 2005 for Xinhua Finance Advertising Limited, included in this prospectus have been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report appearing herein, and is included in reliance upon the report of such firm given upon their authority as experts in auditing and accounting.

The consolidated financial statements as of December 31, 2004 and December 21, 2005 and for the year ended December 31, 2004 and the period from January 1 to December 21, 2005 for Active Advertising Agency Limited (the predecessor to Xinhua Finance Advertising Limited), included in this prospectus have been audited by Deloitte Touche Tohmatsu, an independent

registered public accounting firm, as stated in their report appearing herein, and is included in reliance upon the report of such firm given upon their authority as experts in auditing and accounting.

The consolidated financial statements as of December 20, 2005 and for the period from March 23, 2005 (date of establishment) to December 20, 2005 for Beijing Taide Advertising Co., Ltd., included in this prospectus have been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report appearing herein, and is included in reliance upon the report of such firm given upon their authority as experts in auditing and accounting.

The consolidated financial statements as of August 18, 2005 (predecessor entity — Beijing Shiji Guangnian Advertising Co., Ltd.), and December 31, 2005 and for the period from February 1, 2005 (date of establishment of Beijing Shiji Guangnian Advertising Co., Ltd.) to December 31, 2005 for Accord Group Investments Limited and its predecessor entity — Beijing Shiji Guangnian Advertising Co., Ltd., included in this prospectus have been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their reports appearing herein, and are included in reliance upon the reports of such firm given upon their authority as experts in auditing and accounting.

The consolidated financial statements as of December 31, 2004 and 2005 and for the years ended December 31, 2004 and 2005 for Beijing Perspective Orient Movie and Television Intermediary Co., Ltd., included in this prospectus have been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report appearing herein, and is included in reliance upon the report of such firm given upon their authority as experts in auditing and accounting.

The consolidated financial statements as of December 31, 2004 and 2005 and for the years ended December 31, 2004 and 2005 for Shanghai Hyperlink Market Research Co., Ltd., included in this prospectus have been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report appearing herein, and is included in reliance upon the report of such firm given upon their authority as experts in auditing and accounting.

The office of Deloitte Touche Tohmatsu is located at 35F, One Pacific Place, 88 Queensway, Hong Kong S.A.R.

Where you can find additional information

We have filed with the SEC a registration statement on Form F−1, including relevant exhibits and securities under the Securities Act with respect to underlying common shares represented by the ADSs, to be sold in this offering. A related registration statement on F−6 will be filed with the SEC to register the ADSs. This prospectus, which constitutes a part of the registration statement, does not contain all of the information contained in the registration statement. You should read the registration statement and its exhibits and schedules for further information with respect to us and our ADSs.

Immediately upon completion of this offering we will become subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we will be required to file reports, including annual reports on Form 20−F, and other information with the SEC. As a foreign private issuer, we are exempt from the rules of

Table of Contents

the Exchange Act prescribing the furnishing and content of proxy statements to shareholders. All information filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at Room 1580, 100 F. Street, N.E., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1−800−SEC−0330 for further information on the operation of the public reference rooms. Additional information may also be obtained over the Internet at the SEC's website at www.sec.gov.

Xinhua Finance Media Limited
Index to consolidated financial statements

EconWorld Media Limited (The predecessor to Xinhua Finance Media Limited)
Index to consolidated financial statements

Beijing Century Media Culture Co., Ltd.
Index to consolidated financial statements

Xinhua Finance Advertising Limited
Index to consolidated financial statements

Active Advertising Agency Limited (The predecessor to Xinhua Finance Advertising Limited)
Index to consolidated financial statements

Beijing Taide Advertising Co., Ltd.
Index to consolidated financial statements

Accord Group Investments Limited and predecessor entity— Beijing Shiji Guangnian Advertising Co., Ltd.
Index to consolidated financial statements

Beijing Perspective Orient Movie and Television Intermediary Co., Ltd
Index to consolidated financial statements

Shanghai Hyperlink Market Research Co., Ltd.
Index to consolidated financial statements

Table of Contents

Report of independent registered public accounting firm

To the Board of Directors and Shareholders of
Xinhua Finance Media Limited:

We have audited the accompanying consolidated balance sheets of Xinhua Finance Media Limited and its subsidiaries and affiliates (the "Company") as of December 31, 2005 and 2006 and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for the period from May 26, 2005 (date Xinhua Finance Limited acquired EconWorld Media Limited, the predecessor to Xinhua Finance Media Limited) to December 31, 2005 and the year ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and 2006 and the results of its consolidated operations and its consolidated cash flows for the period from May 26, 2005 (date Xinhua Finance Limited acquired EconWorld Media Limited, the predecessor to Xinhua Finance Media Limited) to December 31, 2005 and year ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Hong Kong
February 1, 2007 (February 20, 2007 as to Note 26)

Table of Contents

Xinhua Finance Media Limited
Consolidated balance sheets

(In U.S. dollars)	December 31, 2005	December 31, 2006	December 31, 2006 Pro forma (unaudited) (Note 2)
Assets			
Current assets:			
Cash	$ 2,080,746	$ 36,353,547	
Restricted cash	—	12,579,822	
Accounts receivable	2,467,238	17,403,632	
Deposits for program advertising right	—	1,507,071	
Prepaid advertising program space and airtime	—	3,419,607	
Prepaid expenses	97,354	3,671,257	
Amounts due from related parties	40,941	8,787,141	
Promissory note receivable – related party	—	7,900,000	
Deferred tax assets	44,007	32,437	
Other current assets	181,121	5,394,902	
Total current assets	4,911,407	97,049,416	
Capitalized content production costs, net	538,179	1,397,206	
Deposits for content production	—	4,457,065	
Property and equipment, net	159,108	4,367,329	
License agreements, net	—	103,844,443	
Exclusive advertising agreement, net— Economic Observer Advertising	—	60,781,306	
Other intangible assets, net	627,652	11,575,779	
Goodwill	4,070,203	83,670,010	
Investment	—	500,000	
Deposits for acquisition of subsidiaries	—	29,246,500	
Deposits for acquisition of intangible asset	—	2,561,246	
Total assets	$ 10,306,549	$ 399,450,300	
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	$ 387,682	$ 3,236,493	
Accrued expenses and other payables	685,422	7,899,210	
Amounts due to Parent and its affiliates	5,599,545	138,694,299	
Amounts due to other related parties	909,387	2,367,163	
Long term payables, current portion	—	8,900,988	
Bank borrowings	—	11,218,256	
Income taxes payable	997,353	2,750,480	
Total current liabilities	8,579,389	175,066,889	
Deferred tax liabilities	207,125	41,168,035	
Convertible loan	—	14,017,289	—
Long term payables, non–current portion	—	64,937,958	
Total liabilities	8,786,514	295,190,171	281,172,882
Commitments (Note 22)			
Minority Interests	166,963	3,010,407	

Table of Contents

(In U.S. dollars)	December 31, 2005	December 31, 2006	December 31, 2006 Pro forma (unaudited) (Note 2)
Shareholders' equity:			
Class A common shares and nonvested shares (par value $0.001; nil as of December 31, 2005 and 69,035,751 as of December 31, 2006 shares authorized; nil as of December 31, 2005 and 32,011,154 as of December 31, 2006 shares issued and outstanding) (51,150,809 (unaudited) shares issued and outstanding on a pro forma basis)	—	32,011	51,151
Class B common shares (par value $0.001; 50,000,000 as of December 31, 2005 and 50,054,619 as of December 31, 2006 shares authorized; 1,000 as of December 31, 2005 and 50,054,618 as of December 31, 2006 shares issued and outstanding)	1	7,442	7,442
Convertible preferred shares (par value $0.001; 15,600,000 as of December 31, 2006 shares authorized; 15,585,254 as of December 31, 2006 shares issued and outstanding (liquidation value $115,770,726))		15,585	—
Additional paid–in capital	—	103,155,391	117,169,125
Retained earnings (deficits)	1,350,898	(2,797,112)	(2,797,112)
Accumulated other comprehensive income	2,173	836,405	836,405
Total shareholders' equity	1,353,072	101,249,722	115,267,011
Total	$ 10,306,549	$ 399,450,300	

See notes to consolidated financial statements

Table of Contents

Xinhua Finance Media Limited
Consolidated statements of operations

(in U.S. Dollars)		For the period from May 26, 2005 (Date Xinhua Finance Limited acquired EconWorld Media Limited, the predecessor to Xinhua Finance Media Limited) to December 31, 2005		Year ended December 31, 2006
Net revenues:				
Advertising services	$	580,133	$	44,861,952
Content production		3,640,792		6,545,148
Advertising sales		386,668		6,691,543
Publishing services		787,451		867,789
Total net revenues		5,395,044		58,966,432
Cost of revenues:				
Advertising services		154,186		27,653,769
Content production		650,993		2,829,311
Advertising sales		84,652		1,912,260
Publishing services		534,289		1,386,162
Total cost of revenues		1,424,120		33,781,502
Operating expenses:				
Selling and distribution		292,845		5,276,751
General and administrative		1,247,646		12,840,202
Total operating expenses		1,540,491		18,116,953
Income from operations		2,430,433		7,067,977
Other income (expense):				
Interest expense		(24,785)		(2,618,398)
Interest income		2,657		1,743,368
Other, net		—		(22,621)
Income before provision for income taxes and minority interest		2,408,305		6,170,326
Provision for income taxes		928,634		1,069,537
Net income before minority interest and equity in loss of an investment		1,479,671		5,100,789
Minority interest		128,773		1,704,287
Equity in loss of an investment		—		52,211
Net income	$	1,350,898	$	3,344,291
Deemed dividend on redeemable convertible preferred shares	$	—	$	(2,157,301)
Dividends declared to redeemable convertible preferred shares	$	—	$	(5,335,000)
Net income (loss) attributable to holders of common shares	$	1,350,898	$	(4,148,010)
Net income (loss) per share:				
Basic — Class A common share	$	—	$	(0.083)
Basic — Class B common share	$	0.032	$	(0.083)
Diluted — Class A common share	$	—	$	(0.083)
Diluted — Class B common share	$	0.032	$	(0.083)
Shares used in computation:				
Basic — Class A common share		—		5,084,366
Basic — Class B common share		42,613,000		44,693,266
Diluted — Class A common share		—		5,084,366
Diluted — Class B common share		42,613,000		44,693,266
Pro forma income per share on an as converted basis:				
Basic — Class A common share			$	0.076
Basic — Class B common share			$	0.076
Diluted — Class A common share			$	0.074
Diluted — Class B common share			$	0.076
Shares used in calculating pro forma per share amount on an as converted basis:				
Basic — Class A common share				20,756,102
Basic — Class B common share				44,693,266
Diluted — Class A common share				68,000,158
Diluted — Class B common share				44,693,266

See notes to consolidated financial statements

Table of Contents

Xinhua Finance Media Limited
Consolidated statements of shareholders' equity and comprehensive income

(In U.S. Dollars)	Class A common shares Number of shares	Class A common shares Amount	Class B common shares Number of shares	Class B common shares Amount	Nonvested shares Number of shares	Nonvested shares Amount	Preferred shares Number of shares	Preferred shares Amount	Additional paid-in capital	Retained earnings (deficits)	Accumulated other comprehensive income	Total	Comprehensive income
Balance, May 25, 2005	—	—	—	—	—	—	—	—	—	—	—	—	
Issuance of common shares	—	—	1,000	1	—	—	—	—	—	—	—	1	
Foreign currency translation gain	—	—	—	—	—	—	—	—	—	—	2,173	2,173	2,173
Net income	—	—	—	—	—	—	—	—	—	1,350,898	—	1,350,898	1,350,898
Balance, December 31, 2005	—	$ —	1,000	$ 1	—	$ —	—	$ —	$ —	$ 1,350,898	$ 2,173	$ 1.353.072	$ 1.353,071
Issuance of common shares in a stock split	—	—	42,612,289	—	—	—	—	—	—	—	—	—	
Issuance of common shares arising from acquisitions of subsidiaries	20,961,154	20,961	—	—	—	—	—	—	32,815,563	—	—	32,836,524	
Issue of common shares to parent	—	—	7,441,329	7.441	—	—	—	—	8,176,923	—	—	8,184,364	
Issuance of nonvested shares	—	—	—	—	11,050,000	11,050	—	—	(11,050)	—	—	—	
Reclassification of preferred shares from mezzanine equity	—	—	—	—	—	—	16,404.926	16,404	62,140,897	—	—	62,157,301	
Redemption of redeemable convertible preferred shares	—	—	—	—	—	—	(819,672)	(819)	(3,104,870)	—	—	(3,105,689)	
Gain on redemption of redeemable convertible preferred shares	—	—	—	—	—	—	—	—	105,688	—	—	105,688	
Issuance of warrants	—	—	—	—	—	—	—	—	739,000	—	—	739,000	
Declared dividend on redeemable convertible preferred shares	—	—	—	—	—	—	—	—	—	(5,335,000)	—	(5,335,000)	
Deemed dividend on redeemable convertible preferred shares	—	—	—	—	—	—	—	—	—	(2,157,301)	—	(2,157,301)	
Amortization of deferred compensation	—	—	—	—	—	—	—	—	2,293,240	—	—	2,293,240	
Foreign currency translation gain	—	—	—	—	—	—	—	—	—	—	834,232	834,232	834.232
Net income	—	—	—	—	—	—	—	—	—	3,344,291	—	3,344,291	3,344,291
Balance, December 31, 2006	20,961.154	$ 20,961	50,054,618	$ 7.442	11,050.000	$ 11,050	15,585,254	$ 15.585	$ 103,155,391	$ (2,797,112)	$ 836,405	$ 101,249.722	$ 4.178.523

See notes to consolidated financial statements

Table of Contents

Xinhua Finance Media Limited
Consolidated statements of cash flows

(in U.S. Dollars)		For the period from May 26, 2005 (Date Xinhua Finance Limited acquired EconWorld Media Limited, the predecessor to Xinhua Finance Media Limited) to December 31, 2005		Year ended December 31, 2006
Cash flows from operating activities:				
Net income (loss) attributable to holders of common shares	$	1,350,898	$	(4,148,010)
Deemed dividend on redeemable convertible preferred shares		—		2,157,301
Dividends declared to redeemable convertible preferred shares		—		5,335,000
Net income		1,350,898		3,344,291
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Minority interests		128,773		1,704,287
Share based compensation		—		2,404,240
Amortization of discount on convertible loan		—		1,017,289
Depreciation and amortization		577,323		5,235,852
Equity in loss of an investment		—		52,211
Imputed interest on long term payables		—		792,872
Loss (gain) on disposal of property and equipment		4,581		(620)
Deferred income taxes		88,094		(700,740)
Changes in operating assets and liabilities (net of effects of acquisitions):				
Accounts receivable		(1,984,858)		(11,073,471)
Capitalized content production costs		(61,737)		(4,457,065)
Prepaid advertising programme space and airtime		—		(2,336,744)
Prepaid expenses and other current assets		(123,871)		(3,774,437)
Amounts due from related parties		(26,065)		(526,174)
Accounts payable		168,659		777,419
Accrued expenses and other payables		(847,308)		1,726,560
Income taxes payable		834,841		1,351,661
Net cash provided by (used in) operating activities		109,330		(4,462,569)
Cash flows from investing activities:				
Purchases of property and equipment		(88,063)		(2,097,795)
Purchase and deposit for acquisition of intangible assets		—		(4,226,056)
Advance to an independent third party		—		(4,603,493)
Loans to related parties		—		(3,550,668)
Amount paid for cost method investment		—		(500,000)
Proceeds from disposal of property and equipment		—		92,854
Increase in restricted cash		—		(9,446,274)
Cash received from (paid for) acquisition of subsidiaries, net of cash paid		464,116		(7,882,839)
Net cash provided by (used in) investing activities		376,053		(32,214,271)
Cash flows from financing activities:				
Advance from related parties		1,587,663		434,242
Proceeds from issuance of convertible loan		—		10,000,000
Proceeds from issuance of redeemable convertible preferred shares		—		60,000,000
Proceeds from issuance of common shares		1		—
Expenses on public offering		—		(2,283,138)
Bank borrowings raised		—		5,621,934
Dividend paid to minority interest		—		(20,810)
Dividend paid on preferred shares		—		(3,648,333)
Redemption of redeemable convertible preferred shares		—		(1)
Capital contribution from minority interest		6,174		—
Net cash provided by financing activities		1,593,838		70,103,894
Effect of exchange rate changes		1,525		845,747
Net increase in cash		2,080,746		34,272,801
Cash, beginning of the period/year		—		2,080,746
Cash, end of the period/year	$	2,080,746		36,353,547
Supplemental disclosure of cash flow information:				
Income taxes paid	$	5,356	$	164,087
Interest paid	$	24,785	$	1,825,526
Supplemental schedule of non-cash investing activities:				
Issuance of common shares for acquisitions of subsidiaries	$	—	$	28,284,605
Issuance of warrants for acquisitions of subsidiaries		—		628,000

Table of Contents

Xinhua Finance Media Limited
Notes to consolidated financial statements
(In U.S. dollars)

1. Organization and principal activities

Xinhua Finance Media Limited ("XFM") was incorporated by Xinhua Finance Limited ("XFL", a Tokyo Stock Exchange listed company) on November 7, 2005 under the laws of the Cayman Islands.

XFM and its subsidiaries and affiliates included in the accompanying consolidated financial statements (collectively, the "Company") are principally engaged in the production of television programs, the placement of advertising, the provision of advertising services, market research and the publication of a financial magazine titled "Money Journal" in the People's Republic of China ("PRC") including Hong Kong. As of December 31, 2006, included in the Company's current liabilities is an amount of approximately $75 million owed by XFM to XFL. XFL has undertaken not to demand repayment of such amount until such time when XFM is able to do so without adversely impairing its liquidity position.

For a description of XFM's subsidiaries and affiliates included in the accompanying consolidated financial statements see note 3.

A variable interest entity ("VIE") is an entity in which equity investors generally do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. A VIE is consolidated by its primary beneficiary when it is determined that the primary beneficiary will absorb the majority of the VIE's expected losses and/or expected residual returns.

Consistent with the provisions of FASB Interpretation No. 46, *"Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51"* (as revised, "FIN 46R"), certain companies are accounted for as a VIE of XFM.

The following financial statement amounts and balances of Beijing Century Media, a VIE, as of December 31, 2005 and covering the period from September 9, 2005 (effective date of the nomination and equity pledge agreements) to December 31, 2005 were included in the accompanying 2005 consolidated financial statements:

Total assets	$	4,016,270
Total liabilities		1,574,522
Total net revenues		3,640,792
Total operating expenses		269,819
Net income		1,682,596

The following financial statement amounts and balances of the Company's VIEs, Shanghai Yuan Zhi Advertising Co., Ltd., Beijing Shiji Guangnian Advertising Co. Limited, Beijing Taide Advertising Co., Ltd., Shenzhan Active Trinity Advertising Co., Ltd. and Guangzhou Jingshi

Table of Contents

Culture Intermediary Co., Ltd. as of December 31, 2006 and for the year ended December 31, 2006 were included in the accompanying 2006 consolidated financial statements:

Total assets	$	18,858,803
Total liabilities		16,200,217
Total net revenues		9,612,595
Total operating expenses		2,298,615
Net income		3,112,548

2. Summary of principal accounting policies

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of consolidation

The accompanying consolidated financial statements of the Company include the accounts of XFM, all its majority–owned subsidiaries and its VIEs from the dates they were acquired or first consolidated by XFL.

The contribution of the businesses by XFL to XFM was accounted for as common control mergers and the related assets and liabilities are recorded based on their fair value when acquired by XFL on the carryover basis. All intercompany transactions and balances have been eliminated in consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements included valuation of deferred tax assets, useful lives of property and equipment, impairment of goodwill, economic lives of intangible assets and remaining ultimate content production revenue for purpose of recognizing costs of content production.

(d) Revenue recognition

Advertising sales revenues are recognized when advertisements are published net of provisions for estimated rate adjustments and discounts. Payments received in advance are deferred until earned and such amounts are reported as deferred revenue included in accrued expenses and other payables of the accompanying consolidated balance sheets.

Publishing services revenues include management and information consulting fees relating to magazine subscriptions and sale of Money Journal. Magazine subscription revenues are recognized over the subscription period. Single copy sales of magazines through distributors or retail outlets such as newsstands, supermarkets, and convenience stores are recognized when

Table of Contents

sold to the ultimate customers. Revenue from book sales is recognized when books are sold to end customers. To date, revenue from book sales has not been significant. The Company does not carry book and magazine inventories on its consolidated balance sheets. Costs of books and magazines published are charged to cost of revenues when incurred.

Advertising services include revenues from event organization and advertising agency services and are generally recognized as services are provided. Revenues from event organization include ticketing revenue recognized upon the delivery of tickets and admission to the events. Revenues from sponsorship at events are generally recorded over the period of the applicable agreements commencing from the operating of the related event.

Advertising services revenue include revenues from provision of market research services. Revenues are recognized when the services are provided.

Content production revenues include revenues from producing television programs, animations, visual effects and post–production for television commercials and broadcast design. Episodic television series are produced or acquired for distribution to the television market. Revenues are recognized when the master tape of the program is available for first airing under the terms of the related licensing agreement. Broadcast design mainly includes design of television channel logos, production of trailers for advertising the television channels, and image consulting and branding for the television channels. Revenue for the production of the logos and trailers are recognized upon delivery of the products and customer acceptance. Revenue for image and branding consultations are recognized as the services are provided.

Consulting services revenue includes revenue from the provision of advisory and consulting services. Revenues are recognized when the services are provided.

Revenues are recorded net of applicable business taxes totaling $336,608 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005; and $1,856,053 for the year ended December 31, 2006.

In the normal course of business, the Company acts as an intermediary or agent in placing advertising transactions with TV and radio stations with third parties. Such transactions are recorded at either gross or net basis depending on whether the Company is acting as the principal or as an agent in the transaction. The Company is considered as the principal in transactions where it purchases blocks of advertising time and attempts to sell the time to advertisers and it has substantial risks and rewards of ownership, accordingly, records revenue on a gross basis. For those transactions in which the Company finds advertising space for advertisers and it does not have substantial risks and rewards of ownership, the Company is considered an agent in the transaction and, accordingly, records revenue on a net basis.

The Company extends credit based upon an evaluation of the customers' financial condition and collateral is not required from such customers. Allowances for estimated credit losses are generally established based on historical experience.

Table of Contents

(e) Restricted cash
Restricted cash are cash balances pledged for the use of banking facilities granted by banks.
(f) Capitalized content production costs
Capitalized content production costs consisted of direct production costs, production overhead, development, and pre–production costs, and are stated at cost, less accumulated amortization and impairment. Capitalized content production costs recognized as cost of revenues for a given program are determined using the program forecast method. Under this method, the amount of capitalized costs recognized as expense is based on the proportion of the program's revenues recognized for such period to the program's estimated remaining ultimate revenues. Similarly, the recognition of expenses for participations and residuals are recognized based on the proportion of the program's revenues recognized for such period to the program's estimated remaining ultimate revenues. These estimates are revised periodically and losses, if any, are provided in full.
(g) Investment
Investments in equity securities of privately held companies where the Company's level of ownership is such that it cannot exercise significant influence over the investee (i.e. voting common stock ownership of less than 20%) are stated at cost, adjusted for declines in fair value that are considered other than temporary. Fair value of the investments is estimated based on market value appraisals or other valuation techniques. In determining whether impairment is other–than–temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence that would be considered in this assessment includes, but is not limited to, the reasons for the impairment, the severity and duration of the impairment, and forecasted recovery. Any impairment is charged to earnings and a new cost basis for the investment is established.
(h) Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight–line basis over the following estimated useful lives:

Leasehold improvements	Lesser of 5 years or lease term
Billboards and lampposts	10 years
Furniture, fixtures and equipment	4–5 years
Motor vehicles	5 years

(i) Intangible assets
Intangible assets consist of advertising customer base, consulting customer base, research customer relationship, trademark, television station contract, television advertising agency right, lamp post advertising agency right, program advertising agency right, backlog order, distribution network, noncompete agreements, exclusive advertising agreement, publishing

Table of Contents

title, subscriber base, CEPA certificate arising from the acquisitions of EconWorld Media Limited, Xinhua Finance Advertising Limited, Accord Group Limited, Beijing Perspective Orient Movie and Television Intermediary Co., Ltd. and Shanghai Hyperlink Market Research Co., Ltd., licensing agreements Upper Step and exclusive advertising agreement in Economic Observer Advertising. The intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight–line method over the intangible assets' economic lives.
The weighted average economic lives are as follows:

Customer base	4 years
Research customer relationship	4 years
Trademark	15 years
Advertising agency right	7.5 years
Program advertising right	20 years
Backlog order	1 year
Noncompete agreements	3 years
Exclusive advertising agreements	27.5 years
Publishing title	10 years
License agreements	30 years
Others	5 years

(j) Goodwill

Goodwill is not amortized but tested for impairment annually as of December 31 and whenever events or circumstances make it more likely than not that an impairment may have occurred. Goodwill impairment is tested using a two–step approach. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test measures the amount of the impairment loss, if any, by comparing the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. The implied fair value of goodwill is calculated in the same manner that goodwill is calculated in a business combination, whereby the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit, with the excess purchase price over the amounts assigned to assets and liabilities. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being a discounted cash flow.

(k) Impairment of long–lived assets

The Company evaluates its long–lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss as the excess

Table of Contents

of carrying amounts over fair value of the assets. There were no impairment losses in the years ended December 31, 2005 and 2006.

(l) Income taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non−current based on their characteristics.

(m) Foreign currency translation

The functional currency of XFM's subsidiaries and affiliates are either the Renminbi ("RMB") or Hong Kong dollar ("HKD"). Transactions denominated in other currencies are translated into RMB or HKD at the average rates of exchange prevailing during each period. Monetary assets and liabilities denominated in other currencies are translated into RMB or HKD at rates of exchange in effect on the balance sheet dates. Nonmonetary assets and liabilities are remeasured into RMB or HKD at historical exchange rates.

The Company uses the United States dollar as its functional and reporting currency. Accordingly, assets and liabilities are translated using exchange rates in effect at the balance sheet date and average exchange rates for the period are used for revenue and expense transactions.

Currency transaction gains and losses are recorded in the consolidated statement of operations. Translation adjustments are recorded in accumulated other comprehensive income, a component of shareholders' equity.

(n) Concentration of credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, accounts receivable, and amounts due from related parties.

One customer contributed $585,765, or 11 %, of the Company's revenues during the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005. This customer contributed $1,601,362, or 3% of the Company's revenues during the year ended December 31, 2006. No single group or customer contributed more than 10% of the total revenue during the year ended December 31, 2006. Two customers as of December 31, 2005 each accounted for 10% or more of the Company's accounts receivable, representing 24% and 11%, respectively, of the Company's accounts receivable balance at December 31, 2005. At December 31, 2006, these customers represented 1% and 3% of the Company's accounts receivable balance. No single group or customer contributed more than 10% of the Company's accounts receivable balance as of December 31, 2006. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts and such losses have been within management's expectations.

Table of Contents

Substantially all of the Company's revenue for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005 and 2006 were generated from the PRC including Hong Kong.
A substantial portion of the identifiable assets of the Company are located in the PRC. Accordingly, no geographical segments are presented.

(o) Fair value of financial instruments

The carrying amounts of accounts receivable, promissory note receivable, accounts payable, bank borrowings and amounts due from (to) related parties approximate their fair values due to the short–term maturity of these instruments.
The convertible preferred shares and convertible loans are recorded at their fair value upon issuance and subsequently at their accreted values, which approximate the cash outlay which would be due upon settlement, if not converted into common shares.

(p) Net income per share

The Company has two classes of common shares which participate in undistributed earnings. Accordingly, the Company has used the two–class method of computing income per share, income per share is computed for each class of common share according to participation rights in undistributed earnings. Under this method, net income applicable to holders of common shares is allocated on a pro rata basis to each class of common shares to the extent that each class may share in income for the period had been distributed.
Diluted income per share is computed using the more dilutive of (a) the two–class method or (b) the if–converted method. As of December 31, 2006 the Company had convertible preferred shares, convertible loan, nonvested shares, options and warrants outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net income per share in the period presented, as their effects would have been antidilutive. No dilutive potential common shares equivalents were outstanding as of December 31, 2005.

(q) Share–based compensation

Share–based payment transactions with employees, such as share options and nonvested shares, are measured based on the grant–date fair value of the equity instrument issued and recognized as compensation expense over the requisite service period, with a corresponding addition to paid–in capital.

(r) License agreements

The license agreements for program material are accounted for as a purchase of right or group of rights. The assets and liabilities for license agreement are initially recorded at fair value which is the present value of the future required payments. The difference between the gross and net liability are then recorded as interest under the effective interest method and the asset is amortized over the life of the agreement.

Table of Contents

(s) Recent accounting pronouncements

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections," which replaces Accounting Principles Board Opinions No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

In February 2006, the FASB issued FASB No. 155, ("SFAS 155"), *"Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140."* This statement is effective for all financial instruments acquired, issued, or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company will adopt SFAS 155 in the first quarter of 2007. The Company has not determined the impact, if any, of SFAS 155 on its financial position, results of operation and cash flow.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109"* ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions in FASB Statement No. 109, *"Accounting for Income Taxes."* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 in the first quarter of 2007. The Company has not determined its impact, if any, of FIN 48 on its financial position, results of operations and cash flows.

In September 2006 the FASB issued FASB Statement No. 157, ("SFAS 157"), *"Fair Value Measurement."* SFAS 157 addresses standardizing the measurement of fair value for companies who are required to use a fair value measure of recognition for recognition or disclosure purposes. The FASB defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure date." SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, of SFAS 157 on its financial position, results of operations and cash flows.

In September 2006, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No.108, *"Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements"* ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Table of Contents

(t) Unaudited pro forma information
The unaudited pro forma balance sheet information as of December 31, 2006 assumes the conversion upon completion of the initial public offering of all redeemable convertible preferred shares of $59,051,612 and convertible loan of $14,017,289 outstanding as of December 31, 2006 into common shares; and the settlement in cash of unpaid dividend relating to preferred shares and interest relating to convertible note outstanding as of December 31, 2006.
(u) Unaudited pro forma net income per share
Pro forma basic and diluted net income per ordinary share is computed by dividing net income attributable to holders of common shares by the weighted average number of common shares outstanding for the period plus the weighted average number of common shares outstanding resulting from the assumed conversion upon the closing of the planned initial public offering of the outstanding redeemable convertible preferred shares and convertible loan.

3. Acquisitions

(a) EconWorld Media
EconWorld Media Limited was incorporated in Hong Kong on March 13, 2003. EconWorld Media Limited and its wholly–owned subsidiaries (collectively, "EconWorld Media", the predecessor to XFM) have the exclusive rights to sell advertising for a financial magazine titled "Money Journal" in the PRC and Hong Kong. In addition, EconWorld Media provides management and information consulting services on the distribution of "Money Journal".
On May 26, 2005, XFL subscribed 210,000 newly issued ordinary shares of EconWorld Media representing 60% of EconWorld Media's total ordinary shares for an initial cash consideration of $1,500,000. Direct costs of $233,599 were incurred. The purpose of the acquisition was to enhance the Company's distribution capabilities. EconWorld Media is the predecessor to XFM and its operating results have been included in the accompanying consolidated financial statements effective on the date of XFL's acquisition.
In addition to the initial cash consideration for the subscription of the 210,000 newly issued ordinary shares, the shareholders of EconWorld Media are entitled to additional cash consideration based on a predetermined earn–out formula applied to aggregate audited operating results through March 31, 2006. Based on EconWorld Media's audited operating results through March 31, 2006, the Company contributed totaling $2,820,000 during the year ended December 31, 2006 which resulted in an additional goodwill of $1,121,257, representing a minority interest proportionate share of the contribution.
On January 12, 2006, XFL transferred its equity interest in EconWorld Media to XFM in exchange of 1,000 XFM's shares (adjusted for the effect of share split on March 16, 2006) with par value of $0.001 (note 17).
On June 21, 2006, XFM acquired another 12% of the equity of EconWorld Media at a price of $1,082,910 which resulted in an additional goodwill of $530,936. The purchase price for this acquisition was paid by XFL on behalf of XFM and was included in amount due to Parent. XFM's ownership of EconWorld Media is increased to 72% as a result of this transaction. The results of EconWorld Media's operations, attributable to the 12% interest acquired, have been

Table of Contents

included in the Company's consolidated financial statements for the year ended December 31, 2006 since the date of acquisition.
On December 28, 2006, XFM acquired the remaining 28% of the equity of EconWorld Media at a price of $5,039,985 which resulted in an additional goodwill of $3,655,487. The purchase price for this acquisition was paid by XFL on behalf of XFM and was included in amount due to Parent. XFM's ownership of EconWorld Media is increased to 100% as a result of this transaction. The results of EconWorld Media's operations, attributable to the 28% interest acquired have been included in the Company's consolidated financial statements for the year ended December 31, 2006 since the date of acquisition.
The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on the respective date of acquisitions of EconWorld Media by XFL or XFM.

	As of May 26, 2005[1]	As of June 21, 2006[2]	As of December 28, 2006[3]
Assets acquired:			
Cash	$ 46,267	$ 114,951	$ 402,065
Accounts receivable	153,499	379,644	1,178,169
Prepaid expenses and other current assets	23,135	58,105	107,572
Subscription receivables	1,500,000	—	—
Amounts due from related parties	14,876	14,476	29,985
Property and equipment	71,060	11,358	53,196
Total	1,808,837	578,534	1,770,987
Liabilities assumed:			
Accounts payable	123,687	190	—
Accrued expenses and other payables	313,050	28,600	117,470
Amounts due to related parties	1,381,648	1,668	143,364
Deferred tax liability	200,295	35,997	71,328
Income taxes payable	38,854	69,187	270,472
Total	2,057,534	135,642	602,634
Intangible assets	723,600	109,082	216,145
Net assets acquired	474,903	551,974	1,384,498
Cash consideration, paid by XFL on behalf of XFM	1,733,599	1,082,910	5,039,985
Goodwill	$ 1,258,696	$ 530,936	$ 3,655,487

Table of Contents

	As of May 26, 2005[(4)]	As of June 21, 2006[(5)]	As of December 28, 2006[(6)]	Amortization period (Years)
Intangible assets comprised of:				
Advertising customer base	$ 33,000	$ 5,408	$ 11,336	6
Consulting customer base	153,600	25,966	55,467	7
Distribution network	7,200	1,284	2,828	10
Noncompete agreement	304,200	38,870	67,037	3
Publishing title	102,000	18,190	40,063	10
Subscriber base	123,600	19,364	39,414	5
Total	$ 723,600	$ 109,082	$ 216,145	

Remarks:

(1) Assets and liabilities are reflected at 100% of their historical cost plus a 60% step up for the acquisition. There is no minority interest because the company was in a net liabilities position.

(2) 12% minority interest in respective assets and liabilities were acquired.

(3) 28% minority interest in respective assets and liabilities were acquired.

(4) 60% of intangible assets relating to the acquisition of 60% interest in EconWorld Media were recognized.

(5) 12% of intangible assets relating to the acquisition of 12% minority interest in EconWorld Media were recognized.

(6) 28% of intangible assets relating to the acquisition of 28% minority interest in EconWorld Media were recognized.

The following pro forma information summarizes the effect of the acquisition, if the acquisitions of EconWorld Media had occurred as of January 1, 2005. This pro forma information is presented for information purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on January 1, 2005, nor is it necessarily indicative of future results of operations of the consolidated enterprises:

	2005	2006
Pro forma net revenues	$ 5,743,400	$ 58,966,432
Pro forma income from operations	1,431,156	6,974,770
Pro forma net income	389,900	3,281,842

(b) Beijing Century Media

Beijing Century Media Culture Co. Ltd., was established on June 25, 2004 in the PRC. Beijing Century Media Culture Co. Ltd. and its majority−owned subsidiaries (collectively, "Beijing Century Media") are principally engaged in the production of television programs, animations, post−production for television commercials and visual effects for television commercials and film. Beijing Century Media also offers broadcast design services.

On September 9, 2005, XFL signed a number of loan agreements, exclusive equity purchase option agreements, equity pledge agreements and subrogation agreements with the equity owners of Beijing Century Media for an initial consideration of $3,000,000 payable in XFL common shares. Direct costs of $56,384 were incurred.

As a result of the transaction, XFL became the primary beneficiary of 100% interest in Beijing Century Media and accounted for the transaction similar to a business combination. On

Table of Contents

March 16, 2006, XFL transferred its beneficial interest in Beijing Century Media to XFM in exchange for the same amount payable to XFL by XFM. This transaction was accounted for as a purchase, as a result, assets and liabilities are stated at either their fair value or net realizable value, as appropriate. The primary asset acquired under the transaction was content production backlog which would enhance the Company's operating activities. The Company has consolidated the operating results of Beijing Century Media effective on the date XFL became the beneficial owner of Beijing Century Media.
The accompanying consolidated financial statements include the accounts and balances of Beijing Century Media and its majority–owned subsidiaries as of December 31, 2005 and December 31, 2006 and for the period from September 9, 2005 (effective date of the nomination and equity pledge agreements) to December 31, 2005 and year ended December 31, 2006.
The following table summarizes the estimated fair values of the assets and liabilities XFL assumed on the effective date of the nomination and equity pledge agreements for Beijing Century Media.

Assets acquired:		
Cash	$	417,849
Accounts receivable		325,802
Capitalized content production costs		921,000
Prepaid expenses and other current assets		129,006
Property and equipment		40,201
Deferred tax assets		125,271
Total		1,959,129
Liabilities assumed:		
Accounts payable		95,336
Accrued expenses and other payables		1,216,640
Amounts due to related parties		246,944
Income taxes payable		123,316
Total		1,682,236
Minority interest		32,016
Net assets acquired		244,877
Initial purchase consideration		3,056,384
Goodwill	$	2,811,507

In addition to the initial consideration, upon achievement of certain income milestones through 2007, the equity owners of Beijing Century Media are entitled to additional considerations, payable at the discretion of XFL in cash or XFL common shares, determined based on a pre–determined earn–out formula applied to aggregate audited net income through December 31, 2005, 2006 and 2007. Based on the relevant income level of Beijing Century Media reported through December 31, 2005, the Company recorded additional consideration of $8,378,317 in 2006 which resulted in an additional goodwill of $8,378,317. The additional consideration of $8,378,317 was paid by XFL on behalf of XFM.
On April 4, 2006, Beijing Century Media made an additional capital contribution of $333,374 (RMB2.7 million) to Beijing Golden Ways Culture Development Co., Limited which increased the

Table of Contents

registered capital of its 90% owned subsidiary from $37,042 (RMB300,000) to $370,416 (RMB3 million). Beijing Century Media's ownership interest also increased to 99%, and resulted in a goodwill of $2,878.

On June 9, 2006, Beijing Century Media made an additional capital contribution of $246,944 (RMB2 million) in Beijing Workshop Communications Co., Ltd. (a majority–owned subsidiary of Beijing Century Media) which increased the registered capital of Beijing Workshop Communications Co., Ltd. from $123,472 (RMB1 million) to $370,416 (RMB3 million) and increased its ownership interest from 90% to 96.6%. This resulted in an excess of fair value of acquired net assets over costs of $40,189 which was applied pro–ratably against the fair value of long lived assets.

The following pro forma information summarizes the effect of the acquisition, if the acquisitions of Beijing Century Media had occurred as of January 1, 2005. This pro forma information is presented for information purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on January 1, 2005, nor is it necessarily indicative of future results of operations of the consolidated enterprises:

	2005	2006
Pro forma net revenues	$ 6,045,820	$ 58,966,432
Pro forma income from operations	2,748,912	7,067,977
Pro forma net income	1,578,092	3,344,291

(c) Xinhua Finance Advertising Limited

Xinhua Finance Advertising Limited (formerly "Ming Shing International Limited") was incorporated in the British Virgin Islands ("BVI") under the laws of the BVI on October 6, 2005 and is an investment holding company for its wholly– and majority–owned subsidiaries and VIEs (collectively, "XFA"). XFA provides advertising design, production and placement services for television, print media and outdoor billboards on university campuses to customers in the PRC and Hong Kong. On June 19, 2006, Ming Shing International Limited changed its name to Xinhua Finance Advertising Limited.

On January 12, 2006, XFL acquired 100% of XFA's ordinary shares at an initial consideration of $29,000,000 plus future contingent consideration to be determined based on net income in each of the years from 2005 to 2007. Direct costs of $650,889 were incurred. On March 16, 2006, XFL transferred its equity interest in XFA to XFM in exchange for the same amount due to XFL under a promissory note The primary assets acquired were television, print, and outdoor advertising agency operations in the PRC which would enhance the Company's geographic reach and operating scope. The accompanying consolidated financial statements include the accounts and balances of XFA and its wholly and majority–owned subsidiaries and VIEs as of December 31, 2006 and for the period from January 12, 2006 (date of acquisition by XFL) through December 31, 2006.

In addition to the initial cash consideration, the shareholders of XFA are entitled to additional cash consideration based on a predetermined earn–out formula applied to aggregate operating results through December 31, 2005, 2006 and 2007. Based on XFA's audited operating results through December 31, 2005, the Company recorded additional consideration totaling

Table of Contents

$31,424,973 during the year ended December 31, 2006, which resulted in additional goodwill of $31,424,973.
The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on the date of the acquisition of XFA, including the additional consideration paid in 2006.

Assets acquired:		
Cash	$	1,181,173
Restricted cash		115,385
Accounts receivable		3,419,313
Prepaid advertising space program and airtime		1,082,863
Prepaid expenses and other current assets		72,743
Amounts due from related parties		1,104,072
Rent deposits		15,657
Property and equipment		829,515
Deferred tax asset		147,211
Total		7,967,932
Liabilities assumed:		
Accounts payable		1,759,712
Accrued expenses and other payables		756,419
Deferred revenue		41,195
Income taxes payable		264,956
Amounts due to related parties		4,600,491
Deferred tax liabilities		3,267,000
Total		10,689,773
Minority interest		636,681
Intangible assets		9,900,000
Net assets acquired		6,541,478
Initial consideration paid in 2006		29,650,889
Contingent consideration paid in 2006		31,424,973
Total consideration paid in 2006		61,075,862
Goodwill	$	54,534,384

Table of Contents

			Amortization period (Years)
Intangible assets comprised of:			
Television advertising agency right	$	3,109,000	4–5
Newspaper advertising agency right		57,000	4
Lamp post advertising agency right		1,564,000	20
Advertising customer base		3,858,000	3–10
Backlog order		270,000	1
CEPA Certificate		2,000	1
Noncompete agreement		1,040,000	4
Total	$	9,900,000	

On July 1, 2006, Beijing Taide Advertising Co, Ltd., a majority owned subsidiary of XFA, acquired additional 20% interest of its subsidiary, Shanghai Yuanxin Advertising Intermediary Co, Ltd., at a consideration of $49,389 (RMB0.4 million). This increased its ownership interest from 80% to 100%, and resulted in an excess of fair value of acquired net assets over cost of $37,754 which had been applied pro–ratably against the fair value of long lived assets. The following pro forma information summarizes the effect of the acquisition, if the acquisitions of XFA had occurred as of January 1, 2005. This pro forma information is presented for information purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on January 1, 2005, nor is it necessarily indicative of future results of operations of the consolidated enterprises:

		2005		2006
Pro forma net revenues	$	13,096,450	$	58,966,432
Pro forma income from operations		999,783		7,067,977
Pro forma net income		444,687		3,344,291

(d) Beijing Jingguan Xincheng Advertising Co., Ltd.

Beijing Jingguan Xinchen Advertising Co., Ltd. ("Economic Observer Advertising") was established in the PRC on January 25, 2006. Economic Observer Advertising has the exclusive rights to sell advertising for and provides management and information consulting services to a financial newspaper.

On June 8, 2006, XFM acquired 50% equity interest of Economic Observer Advertising and control of a majority of its board of directors at an initial cash consideration of $9,241,465 and incurred transaction costs of $2,229,612. Out of the total $11,471,077, $8,962,397 was paid by Xinhua Finance Network ("XFN") and XFL and behalf of XFM. The primary asset acquired was the exclusive rights to sell advertising and provide management and information consulting services. In addition to the initial cash consideration, the equity holders of Economic Observer Advertising are entitled to additional cash considerations based on a predetermined earn–out formula applied to aggregate operating results through December 31, 2006.

Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on the date of acquisition of Economic Observer Advertising.

Net tangible assets acquired; representing Cash	$	617,360
Deferred tax liability		19,575,591
Long term payable		25,093,827
Minority Interest		308,680
Intangible assets, exclusive advertising agreement		55,831,815
Net assets acquired	$	11,471,077
Consideration paid		9,241,465
Transaction costs		2,229,612
	$	11,471,077

On September 15, 2006, other shareholders of Economic Observer Advertising transferred their aggregate 50% of the equity interests in Economic Observer Advertising to XFM in exchange for total consideration of $6,708,221, which include a cash consideration of $308,680 and 5,761,317 XFM's class A common shares valued at $1.1 per share. Direct costs of $62,092 were incurred and included in purchase price of the acquisition.

Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition of the remaining 50% equity interest in Economic Observer Advertising.

Assets acquired:		
Cash	$	212,530
Investment in an affiliate		370,416
Accounts receivables		1,552,851
Other receivables		580,321
Prepaid expenses		7,531,794
Property and equipment		35,528
Total		10,283,440
Liabilities assumed:		
Other payables		8,134,283
Loan from shareholders		37,106
Amounts due to related parties		401,477
Taxation		374,959
Deferred tax liability		9,787,796
Long term payable		12,943,349
Total		31,678,970
Intangible assets, exclusive advertising agreement		28,103,751
Net assets acquired		6,708,221
Consideration, issuance of XFM's shares		6,337,449
Cash consideration paid		308,680
Transaction costs		62,092
	$	6,708,221

The exclusive advertising agreement has an amortization period of 50 years.
The accompanying consolidated financial statements included the accounts and balance of Economic Observer Advertising as of December 31, 2006 and the operating results for the period from June 8, 2006 (date of acquisition by XFM) through December 31, 2006.

(e) Accord Group Investments ltd.

Accord Group Investments Limited was established in the BVI on June 15, 2005. Accord and its subsidiaries and consolidated VIE, (collectively the "Accord Group") place advertisements, provide advertising services to customers in the PRC and have the exclusive rights to sell advertising for and the rights to provide content to the EasyFM radio stations of Beijing and Shanghai. Accord Group also provides design and production services to its customers. On January 23, 2006, XFL acquired a 19% equity interest in Accord Group for cash consideration of $440,000 which was paid by XFN, a subsidiary of XFL, on its behalf. On March 16, 2006, XFL transferred all its 19% beneficial interests in Accord Group to XFM in exchange for the same amount due to XFN.

Table of Contents

On September 22, 2006, XFM acquired 61% of the equity of Accord Group from Sino Investment Holdings Limited ("Sino Investment"), a company controlled by two directors of XFL and the chief financial officer of the Company has beneficial interest, by issuing 451,107 of its class A common shares valued at $1.1 per share. As part of the acquisition, the Company also issued 125,053 class A common shares valued at $1.1 per share to an individual in exchange of his entering into a Deed of Non−Competition Undertaking and Release with the Company. The total value of the shares issued amounted to $633,776.
On November 1, 2006, XFM acquired the remaining 20% equity of Accord Group for $237,600, which was settled by the issuance of 125,053 of its class A common shares valued at $1.90 each. As a result, Accord Group became a wholly−owned subsidiary of XFM.
The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on the respective date of acquisitions of Accord Group. The table also reflects a non−cash activity for purposes of the consolidated statement of cash flows:

		As of September 22, 2006(1)		As of November 1, 2006(2)
Assets acquired:				
Cash	$	259,661	$	665,174
Accounts receivables		202,234		59,640
Prepaid expense and other current assets		81,628		15,617
Property and equipment, net		133,901		25,945
Total		677,424		766,376
Liabilities assumed:				
Accounts payables		197,837		50,524
Other payables and other current liabilities		1,290,053		29,540
Loan from shareholders		2,464		—
Amounts due to related parties		1,626,282		1,106,424
Income taxes payable		219		—
Deferred tax liability		450,670		—
Total		3,567,525		1,186,488
Intangible assets		1,309,221		33,779
Loss of Accord Group previously equity accounted for		52,211		—
Net (liabilities assumed) assets acquired		(1,528,669)		33,779
Cash consideration paid in 2006		440,000		—
Issuance of XFM's shares		633,776		237,600
Total considerations		1,073,776		237,600
Goodwill	$	2,602,445	$	203,821

Table of Contents

		As of September 22, 2006(3)		As of November 1, 2006(4)	Amortization period
					(Years)
Intangible assets comprised of:					
Exclusive advertising agreement	$	1,163,000	$	—	5
Advertising customer base		146,221		33,779	3
Total	$	1,309,221	$	33,779	

Notes:

(1) Assets and liabilities are reflected at 100% of their historical cost plus a 80% step up for the acquisition. There is no minority interest because the company was in net liabilities position.

(2) 20% minority interest in respective assets and liabilities were acquired. The net liabilities were not assumed from the acquisition because the minority interest had not shared the attributable loss in the company in excess of its capital contribution.

(3) 80% of total intangible assets relating to the acquisitions of 80% interest in Accord Group were recognized.

(4) 20% of total intangible assets relating to the acquisitions of 20% interest in Accord Group were recognized.

The accompanying consolidated financial statements included the accounts and balance of Accord Group as of December 31, 2006 and the operating results for the period from September 22, 2006 (date of acquisition by XFM) through December 31, 2006. As a result of the subsequent acquisition of a controlling interest and eventually 100% of Accord Group, the results of Accord Group's operations attributable to the first 19% interest acquired was adjusted retrospectively and accounted for using the equity method during the period from January 23, 2006 to September 21, 2006.

The following pro forma information summarizes the effect of the acquisition, if the acquisitions of Accord Group had occurred as of January 1, 2005. This pro forma information is presented for information purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on January 1, 2005, nor is it necessarily indicative of future results of operations of the consolidated enterprises:

		2005		2006
Pro forma net revenues	$	5,886,360	$	60,088,070
Pro forma income from operations		938,920		6,456,903
Pro forma net (loss) income		(210,408)		2,880,912

(f) Beijing Perspective Orient Movie and Television Intermediary Co., Ltd.

Beijing Perspective Orient Movie and Television Intermediary Co., Ltd. was established in the PRC on September 25, 2000 for a term of 20 years. Beijing Perspective and its subsidiary (collectively the "Beijing Perspective") are engaged in the production and syndication of financial television programs under the Fortune China name and earn revenues by selling advertising time and sponsorship rights at the time the programs are broadcasted.

Table of Contents

On July 28, 2006, XFM acquired 51% of the equity of Beijing Perspective, through Beijing Century Media. XFL paid the purchase price of $6,275,052 for this acquisition. Transaction costs of $662,092 were included in this transaction and were paid by XFN and XFL on behalf of XFM.
The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on the date of the acquisition of Beijing Perspective.

Assets acquired:		
Cash	$	2,733,530
Accounts receivables		21,220
Prepaid expenses and other current assets		100,628
Amounts due from related parties		1,929
Property and equipment		1,585,096
Total		4,442,403
Liabilities assumed:		
Accounts payables		56,887
Accrued expense and other payables		904,488
Amounts due to related parties		51,957
Other taxes payable		23,718
Deferred tax liability		194,755
Total		1,231,805
Minority Interest		1,996,338
Intangible assets		1,258,975
Net assets acquired		2,473,235
Total consideration, paid by XFL		6,275,052
Transaction costs		662,092
Goodwill	$	4,463,909

			Amortization period (Years)
Intangible assets comprised of:			
Trademark	$	844,345	15
Television station contract		68,340	3
Advertising customer base		72,420	3
Noncompete agreement		273,870	5
Total	$	1,258,975	

The accompanying consolidated financial statements included the accounts and balance of Beijing Perspective as of December 31, 2006 and the operating results for the period from July 28, 2006 (date of acquisition by XFM) through December 31, 2006.
The following pro forma information summarizes the effect of the acquisition, if the acquisitions of Beijing Perspective occurred as of January 1, 2005. This pro forma information is

Table of Contents

presented for information purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on January 1, 2005, nor is it necessarily indicative of future results of operations of the consolidated enterprises:

		2005		2006
Pro forma net revenues	$	8,130,358	$	59,797,031
Pro forma income from operations		1,682,951		6,137,829
Pro forma net income		598,398		1,885,579

(g) Shanghai Hyperlink Market Research Co., Ltd

Shanghai Hyperlink Market Research Co., Ltd was established in the PRC on July 15, 1997 for a term of 20 years. Shanghai Hyperlink and its subsidiary (collectively the "Shanghai Hyperlink") primarily engage in market research in the PRC and provide services including the study of market characteristics, consumer preferences and opinions with respect to advertising and media content, and business and technology issues.

On August 1, 2006, XFL acquired 51% of the equity of Shanghai Hyperlink, and paid partial purchase price with initial consideration of $2.0 million and subsequent consideration based on a predetermined earn−out formula applied to aggregate audited operating results through June 30, 2007 and 2008 with a maximum of $3.6 million for this 51% equity. On September 1, 2006, XFM issued 1,679,012 class B common shares to XFL in exchange for the 51% equity interest in Shanghai Hyperlink.

On September 15, 2006, members of the management team of Shanghai Hyperlink, transferred their aggregate 49% of the equity interest in Shanghai Hyperlink to the Company at total consideration of $1,804,737; of which of $30,251 (RMB245,000) was settled in cash and $1,774,486 was settled by the issuance of 1,613,169 class A common shares at fair value of $1.1 each.

Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on the respective date of acquisitions of Shanghai Hyperlink.

		As of August 1, 2006[1]		As of September 15, 2006[2]
Assets acquired:				
Cash	$	304,672	$	164,851
Accounts receivable		220,156		187,858
Other receivables		81,575		45,006
Amounts due from related parties		36,610		23,210
Property and equipment		278,370		151,585
Total		921,383		572,510
Liabilities assumed:				
Accounts payables		56,953		18,020
Accrued expenses and other payable		256,562		203,188
Amounts due to related parties		88,433		47,559
Other taxes payables		103,918		—
Income tax payable		136,291		81,571
Deferred tax liabilities		142,214		130,943
Total		784,371		481,281
Minority Interest		136,821		—
Intangible assets		430,950		396,798
Net assets acquired		431,141		488,027
Consideration — issuance of XFM's shares		—		1,774,486
Cash consideration paid		2,227,333		30,251
Total transaction costs		742,948		—
Goodwill	$	2,539,140	$	1,316,710

		As of August 1, 2006[3]		As of September 15, 2006[4]	Amortization period
					(Years)
Intangible assets comprised of:					
Customer relationship	$	211,140	$	194,408	4
Noncompete agreement		219,810		202,390	4
Total	$	430,950	$	396,798	

Notes:

(1) Assets and liabilities are reflected at 100% of their historical cost plus a 51% step up for the acquisition.

(2) 49% minority interest in respective assets and liabilities were acquired.

(3) 51% of total intangible assets relating to the acquisitions of 51% interest in Shanghai Hyperlink were recognized.

(4) 49% of total intangible assets relating to the acquisitions of 49% interest in Shanghai Hyperlink were recognized.

Table of Contents

The accompanying consolidated financial statements included the accounts and balance of Shanghai Hyperlink as of December 31, 2006 and the operating results for the period from August 1, 2006 (date of acquisition by XFL) through December 31, 2006.
The following pro forma information summarizes the effect of the acquisition, if the acquisitions of Shanghai Hyperlink occurred as of January 1, 2005. This pro forma information is presented for information purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on January 1, 2005, nor is it necessarily indicative of future results of operations of the consolidated enterprises:

		2005		2006
Pro forma net revenues	$	7,748,321	$	60,250,623
Pro forma income from operations		2,518,351		6,900,362
Pro forma net income		1,370,109		3,364,955

(h) Upper Step Holdings Ltd

Upper Step Holdings Limited ("Upper Step") was established in the BVI on September 28, 2005. Upper Step is engaged in the provision of advertising and consulting services in relation to the strategic partnership with Shanghai Camera Media Investment Co., Ltd.
On February 28, 2006, XFN paid cash of $5,100,000 to a selling shareholder as consideration for 19% of the equity of Upper Step. On March 16, 2006, the 19% equity holding was transferred to XFM. XFM subsequently contributed cash amounting to $1,200,000 directly to Upper Step as additional contribution for its existing 19% equity interest. This resulted in total consideration of $6,300,000 for acquiring this equity interest from XFM's perspective. Transaction costs of $133,250 were incurred. On September 22, 2006, XFM obtained that 37% equity of Upper Step from Sino Investment, for a total consideration of $18,954,281, of which $7,126,281 was settled by the issuance of 6,478,437 of its class A common shares at a price of $1.1 per share, $628,000 was settled by the issuance of 4,099,968 of its warrants, additional cash consideration of $9,100,000 paid by XFL on behalf of XFM and cash consideration of $10,000,000 paid by XFM. Included in total cash consideration of $19,100,000, $7,900,000 represented payment made by XFM on behalf of Sino Investment to vendor. Direct costs of $142,820 were incurred. The warrants are immediately exercisable at a price of $3.659 per share and valid for a period of five years. The chief financial officer of the Company has beneficial interest in Sino Investment.
On November 1, 2006, XFM had obtained the remaining 44% equity in Upper Step at total consideration of $12,173,334, which were settled by the issuance of 6,407,018 class A common shares of the Company valued at $1.9 each.

Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on the respective date of acquisitions of Upper Step. The table also reflects a non–cash activity for purposes of the consolidated statement of cash flows:

	As of September 22, 2006	As of November 1, 2006
Assets acquired:		
Cash	$ 2,784,144	$ 833,806
Restricted cash	3,018,163	1,327,992
Other receivables	3,556,659	1,639,896
Amounts due from related parties	363,609	306,769
Total	9,722,575	4,108,463
Liabilities assumed:		
Accrued expense and other payables	400,429	233,418
Loan from a shareholder	2,002,066	—
Short term loan	5,596,322	2,462,383
Amounts due to related parties	512,249	909
Total	8,511,066	2,696,710
Intangible assets, licensing agreements	25,731,906	10,761,581
Minority interests	1,413,064	—
Net assets acquired	$25,530,351	$12,173,334

The licensing agreements have amortization period of 30 years.

The accompanying consolidated financial statements included the accounts and balance of Upper Step as of December 31, 2006 and the operating results for the period from September 22, 2006 (date of acquisition by XFM) through December 31, 2006.

4. Investment

As of December 31, 2006, the Company's investment represented 19% equity interest in Hyperlink E–data International Limited, a company incorporated in BVI and is intended to be engaged in market research online business. The purpose of this investment is to strengthen the market research capabilities of the Company in the PRC market. The investment was accounted for as a cost method investment.

5. Deposits for acquisition of subsidiaries

In 2006, XFM had issued to XFL and its affiliates promissory notes amounting to $29,246,500 that was included as part of the amounts due to Parent and its affiliates as of December 31, 2006 (Note 20) for settling the potential earn–out considerations relating to the acquisition of XFA and contractual control of Beijing Century Media, which will be paid by XFL.

Table of Contents

6. Capitalized content production costs, net

Capitalized content production costs, net consisted of the following:

	At December 31, 2005	2006
Television programs:		
Released	$ 921,000	$ 1,787,645
In production	61,737	1,163,915
Total	982,737	2,951,560
Less: accumulated amortization	444,558	1,554,354
Capitalized content production costs, net	$ 538,179	$ 1,397,206

Amortization expense was $444,558 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005; and $1,098,228 for the year ended December 31, 2006, respectively.

7. Other current assets

Other current assets consisted of the following:

	At December 31, 2005	2006
Advances to employees	$ 103,677	$ 172,708
Rent deposits	18,454	213,857
Other loan receivable	—	4,603,493
Others	58,990	404,844
Total	$ 181,121	$ 5,394,902

Advances to employees are non–interest bearing and are due on the Company's demand.
Other loan receivable is advance to an independent third party. The amount is carried interest at 5% per annum, unsecured and repayable within one year; however, the Company can request for security from the borrower anytime pursuant to the agreement.

Table of Contents

8. Property and equipment, net

Property and equipment, net consisted of the following:

	At December 31,	
	2005	2006
Leasehold improvements	$ 32,966	$2,123,204
Billboards and lampposts	—	635,804
Furniture, fixtures and equipment	239,893	1,940,980
Motor vehicles	—	427,268
Total	272,859	5,127,256
Less: accumulated depreciation and amortization	113,751	759,927
Property and equipment, net	$159,108	$4,367,329

Depreciation and amortization expense was $36,817 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005; and $633,119 for the year ended December 31, 2006.

9. Intangible assets, net

	At December 31,	
	2005	2006
License agreements in Upper Step		
— License agreement	$ —	$ 36,493,488
— Television advertising services contract	—	67,591,471
	—	104,084,959
Less: accumulated amortization		
— License agreement	—	240,516
— Television advertising services contract	—	—
	—	240,516
	$ —	$ 103,844,443
Exclusive advertising agreement in Economic Observer Advertising	$ —	$ 61,338,472
Less: accumulated amortization	—	557,166
	$ —	$ 60,781,306

Table of Contents

Other intangible assets, net consisted of the following:

		2005		At December 31, 2006
Customer base	$	310,200	$	4,577,575
Research customer relationship		—		405,548
Trademark		—		844,345
Advertising agency right		—		4,730,000
Backlog order		—		270,000
Noncompete agreements		304,200		2,146,177
Exclusive advertising agreement		—		1,163,000
Publishing title		102,000		160,253
Others		7,200		81,652
Total		723,600		14,378,550
Less: accumulated amortization				
Customer base	$	30,428	$	1,142,771
Research customer relationship		—		34,673
Trademark		—		33,372
Advertising agency right		—		748,200
Backlog order		—		270,000
Noncompete agreements		59,150		489,609
Exclusive advertising agreement		—		54,273
Publishing title		5,950		17,170
Others		420		12,703
Total accumulated amortization	$	95,948	$	2,802,771
Other intangible assets, net	$	627,652	$	11,575,779

Amortization expense was $95,948 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005; and $3,504,505 (including license agreements in Upper Step and exclusive advertising agreement in Economic Observer Advertising) for the year ended December 31, 2006. The Company will record amortization expense of $8,005,160, $7,906,576, $6,879,030, $6,251,606 and $5,535,013 in the years ending 2007 through 2011, respectively.

Table of Contents

10. Goodwill

The changes in the carrying amount of goodwill in each of the segments are as follows:

	Media Production	Print	Advertising	Research	Broadcasting	Total
Goodwill acquired during the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005 and balance as of December 31, 2005	$ 2,811,507	$ 1,258,696	$ —	$ —	$ —	$ 4,070,203
Goodwill acquired during the year	8,381,195	5,307,680	54,534,384	4,102,074	7,274,474	79,599,807
Balance as of December 31, 2006	$ 11,192,702	$ 6,566,376	$ 54,534,384	$ 4,102,074	$ 7,274,474	$ 83,670,010

Management performed the annual goodwill impairment test as of December 31, 2006 in respect of goodwill arising from EconWorld Media, Beijing Century Media and XFA and no impairment loss is identified.

11. Accrued expenses and other payables

Accrued expenses and other payables consisted of the following:

	At December 31, 2005	At December 31, 2006
Accrued salary and welfare	$ 77,118	$ 858,961
Other taxes payable	278,547	1,523,730
Commissions payable	14,815	307,350
Deferred revenue	—	919,592
Accrued offering expenses	—	845,189
Dividend payable for preference shares	—	1,686,667
Other	314,942	1,757,721
Total	$685,422	$7,899,210

Table of Contents

12. Long term payables

			At December 31,	
		2005		2006
Long term payables, current portion	$	—	$	8,900,988
Long term payables, non–current portion		—		64,937,958
Total	$	—	$	73,838,946

The long term payables represent the outstanding consideration for the acquisition of license agreement and exclusive advertising agreement in Economic Observer Advertising and advertising services agreement in Upper Step which are non–interest bearing and have repayment terms ranging from 5 to 50 years with fixed monthly or annual payments. The payable was accordingly discounted at an effective interest rate of 6% per annum. Such imputed interest included in the statement of operation for the year ended December 31, 2006 amounted to $792,872.
The schedule of principal payments of long–term payables as of December 31, 2006 was as follows:

2007	$	8,900,988
2008		9,066,943
2009		8,546,652
2010		8,056,223
2011		5,626,982
After 2011		33,641,158
Total	$	73,838,946
Less: Current portion		(8,900,988)
Non–current portion	$	64,937,958

13. Bank borrowings

The bank borrowings as of December 31, 2006, were secured by bank deposits of approximately $12.6 million. The amounts carry interest of approximately 6% per annum and are repayable in 2007.

14. Convertible securities

(a) Redeemable convertible preferred shares

On March 16, 2006, XFM entered into an agreement with one of XFL's shareholders and sold 16,404,926 of XFM's redeemable convertible preferred shares ("Preferred Shares") for $60,000,000. The cash proceeds were used primarily to acquire the equity interest of certain subsidiaries and affiliates.

Table of Contents

The key terms of the Preferred Shares are as follows:

Dividends. The holders of the Preferred Shares are entitled to receive mandatory cumulative dividends at an annual rate of 11% of the original issue price per annum for each Preferred Share and to be received on a quarterly basis. The Company has declared and paid $1,943,333 preferred share dividends for the period from the date of issuance of the Preferred Shares to July 24, 2006.

Conversion. The Preferred Shares are automatically convertible into common shares at any time after the date of issuance of such shares by obtaining the necessary written consent from the holders of the Preferred Shares; or upon the consummation of a qualified public offering. Each Preferred Share shall be convertible into such number of fully paid and nonassessable common shares as is determined by dividing the par value of the convertible Preferred Shares plus all accrued unpaid dividends on the Preferred Share by the applicable conversion price of (i) $3.66 if certain assets were not acquired directly or indirectly by the Company; and (ii) $5.17 if 100% of certain assets were acquired directly or indirectly by the Company.

The conversion price is subject to adjustments for issuances of the Company's shares below the conversion price, dividend payment, stock split and other dilution events, except for certain issuances such as issuances in connection with the employee share benefit plan. The Redeemable Convertible Preferred Shares will be automatically converted into the Company's common shares upon a qualified initial public offering by the Company.

Voting rights. Each Preferred Share shall entitle the holder to such number of votes as shall equal the number of common shares into which such Preferred Share is then convertible.

Redemption. Preferred Shares may be redeemed at any time after the earlier of (i) December 31, 2008; (ii) the date there is an initial public offering that is not a qualified initial public offering as described in the share purchase agreement; (iii) the Company elects to optionally redeem the Preferred Share; or (iv) failure for the Company to fulfill its certain obligations. In connection with the redemption of the Preferred Share, the Company shall pay a redemption price either (a) equal to the face amount plus any accrued and unpaid dividends due on such Preferred Share plus an amount equal to face amount times 42.86% times number of calendar days in the period from the issuance date to redemption date divided by number of calendar days in the period from the issuance date to December 31, 2008; or (b) the fully paid and non-assessable common shares of XFL, with the price per common share of XFL determined at a 10% discount to the 30 trading day trailing average closing price of such common share of XFL on the relevant exchange. The Company accrued the premium over the redemption period as a deemed dividend with a debit to the retained earnings of $2,157,301 for the period from date of issuance of Preferred Share to July 24, 2006.

Liquidation preference. In the event of any liquidation, dissolution or winding up of the Company, of any distribution of assets to its shareholders, either voluntary or involuntary, each Preferred Share holder shall be entitled to receive for each of its Preferred Shares, out of any lawfully available assets of the Company, in preference to the holders of common shares and any other preferred shares, an amount equal to the face amount plus any accrued and unpaid dividends due on such Preferred Share plus an amount equal to face amount times 42.86% times number of calendar days in the period from the issuance date

Table of Contents

to the payment date divided by number of calendar days in the period from the issuance date to December 31, 2008.

On July 24, 2006, the Memorandum of Association were amended and the terms of the Preferred Shares were changed as follow:

(i) The Preferred Shares are revised to be redeemable at the option of the Company.

(ii) the dividends are no longer cumulative, and are paid only if declared.

The significant terms of the revised Preferred Shares are as follows:

Conversion. Each convertible preferred share is convertible into class A common share at a conversion price of $3.66, at the option of the holder at any time after the original date of issuance of such shares, or is automatically converted upon the qualified initial public offering as described in the amended and restated Memorandum of Association of the Company that occurs prior to the December 31, 2008. At any time after January 7, 2009, holder of Preferred Shares may notify XFM to convert all of its preferred shares into 160,000 XFL's shares. In such case, XFM must use best efforts to procure the delivery of such shares.

Voting rights. Each Preferred Shares shall entitle this holder to vote on an as converted basis with the class A common share.

Dividends. The holders of Preferred Shares are entitled to receive noncumulative dividends only if declared.

Liquidation preference. In the event of any liquidation, dissolution, or winding up of the Company, or any distribution of assets to its shareholders, either voluntary or involuntary, each preferred shareholder shall be entitled to receive for each of its Preferred Shares, out of any lawfully available assets of the Company, in preference to the holders of common shares and any other preferred shares, an amount equal to the sum of (i) two times the face amount (which is $3.66 per preferred share, as adjusted for any split, consolidation or similar event with respect to the preferred shares) plus (ii) any accrued and unpaid dividends due on such Preferred Share plus (iii) after December 31, 2008, 15% per annum multiplied by the sum of (i) and (ii) above.

After the payment in full of the liquidation preference amount to the holders, the total preferred shares shall also be entitled to a share of 1% of the remaining assets of the Company.

With the change of terms, the Preferred Shares were reclassified from mezzanine equity to permanent equity.

On September 20, 2006, 819,672 Preferred Shares at carrying value of $3,105,689 were redeemed by the Company for a total redemption amount of $1.00. At the same time, the credit agreement was amended (see note 14(b)), pursuant to which $3,000,000 was reclassified as convertible loan. Redemption gain of $105,688 was recognized directly in equity.

(b) Convertible loan

In addition to the issuance of the Preferred Shares, on March 16, 2006, XFM also entered into a credit agreement with the same XFL shareholder discussed above. Under the credit agreement,

Table of Contents

XFM borrowed $10.0 million from the XFL shareholder for a term through December 31, 2008. Interest is payable at LIBOR plus 2.75%; however, the Company shall pay on the loan maturity date an amount either (a) equal to the face amount plus any accrued and unpaid interest due on such loan plus an amount equal to face amount times 42.86% times number of calendar days in the period from the issuance date to payment date divided by number of calendar days in the period from the issuance date to December 31, 2008; or (b) the fully paid and non−assessable common shares of XFL, with the price per common share of XFL determined at a 10% discount to the 30 trading day trailing average closing price of such common share of XFL on the relevant exchange. That holder may convert the note into XFM's class A common shares at any time, at a conversion rate of $3.657438 per share. Pursuant to this credit agreement, XFM also entered into pledge and security agreements pledging the ownership interest of certain of XFM's subsidiaries and XFM's assets.
Immediately following redemption of the 819,672 preferred shares, the credit agreement was amended such that the additional interest of $272,727.27 related to the convertible loan in arrears from the quarter starting April 1, 2006 shall accrue until the quarter ending December 31, 2008 with the total increase amounting to $3,000,000 being payable upon maturity.
In addition, upon conversion, the sum of (i) the aggregate amount of the outstanding principal amount of the loans plus (ii) all accrued and unpaid interest plus (iii) $3,000,000 less any amount of accrued accreting interest paid simultaneously therewith shall be convertible into XFM's common shares. Hence, the $3,000,000 interest originally accruing through maturity of the notes will be immediately available for conversion into XFM's common shares upon a qualified initial public offering by XFM if that happens before December 31, 2008.

15. Nonvested Shares

In June 2006, the Company granted 11,050,000 common shares of $0.001 each ("Nonvested Shares") to a director, Fredy Bush as fully paid shares at par. The Nonvested Shares shall be subject to a 5−year vesting period and one−fifth of the total Nonvested Shares granted, being 2,210,000 common shares, shall become vested on each of the first annual anniversary dates after the date of grant. Accordingly, the Company recorded compensation expense of $1,666,382 in general and administrative expenses for the year ended December 31, 2006 which represents amortization on the fair value of the common shares on the grant date over a period of 5 years.
The following table summarizes information regarding the Nonvested Shares:

Grant Date	Number of Non−vested shares issued	Fair value of common shares	Grant price
June 13, 2006	11,050,000	$0.6*	$—

** The fair value was determined based on a valuation by an independent appraiser, American Appraisal China Limited ("Independent Appraiser").*
As of December 31, 2006, there are 11,050,000 Nonvested Shares outstanding. These shares are subject to transfer restrictions and do not have any voting rights, entitlement of dividends,

Table of Contents

rights to the surplus assets of the Company in the event of a winding-up or reorganization of the Company and generally all of the rights attaching to common shares.

On November 20, 2006, 635,000 nonvested class A shares held by Fredy Bush were transferred to seven individuals. On November 30, 2006, 10,415,000 class A nonvested shares held by Fredy Bush were transferred to her family trust fund.

16. Warrants

In connection with the acquisition of Upper Step, the Company issued to Sino Investment warrants to purchase 4,099,968 class A common shares with a strike price of $3.659 per share on September 22, 2006. In addition, the Company issued warrants to purchase 630,000 class A common shares to a consultant with a strike price of $3.659 per share on December 7, 2006. The warrants are fully vested upon the date of grant. For the warrant to Sino Investment, total fair value of $628,000 at the date of grant was capitalized as part of the consideration paid for the acquisition of Upper Step. The warrants to the consultant shall be subject to a 5-year lock-up period. The related compensation expense of $111,000 was recorded as consultancy fee in general and administration expense in the year ended December 31, 2006 and represents the fair value of the warrants on the grant date.

The fair value of the warrants granted to Sino Investment and the consultant were approximately $0.15 per warrant and $0.18 per warrant, respectively, at respective dates of grant, which were estimated on the basis of the Black-Scholes option pricing model with the following assumptions:

	Warrant to Sino Investment	**Warrant to consultant**
Expected price volatility range	45%	44%
Risk-free interest rate	5.11%	4.91%
Contractual life of the warrant	5 years	5 years
Expected dividends	0%	0%

The fair value was determined based on a valuation by Independent Appraiser.

As of December 31, 2006, there are 4,729,968 warrants outstanding. These warrants are subject to transfer restrictions and do not have any voting rights, entitlement of dividends, rights to the surplus assets of the Company in the event of a winding-up or reorganization of the Company and generally all of the rights attaching to common shares.

17. Capital Structure

On November 7, 2005, XFM issued 1,000 common shares (adjusted for the effect of share splite on March 16, 2006) at par value of $0.001 per share to XFL.

On January 12, 2006, in connection with the acquisition of 60% interest in EconWorld Media, XFM issued 1,000 shares (adjusted for the effect of share subdivision on March 16, 2006) with par value of $0.001 for a total consideration of $4,553,599, which represented XFL's investment in EconWorld Media.

Table of Contents

On March 16, 2006, XFM issued 42,612,289 shares at par value of $0.001 per share to XFL, which has been accounted for as a stock split. The share proceeds of $42,612 remained outstanding and subscription receivable of $42,612 was recorded.
Pursuant to a special resolution passed on March 16, 2006, every issued and unissued share of $1.0 each in the capital of XFM is subdivided into 1,000 share of $0.001 each. Accordingly, immediately after the subdivision, XFM has an authorized share capital of $50,000 divided into 50,000,000 shares of $0.001 each and issued share capital of $2 divided into 2,000 shares of $0.001 each. All share and per share amounts were retroactively adjusted to reflect this share subdivision.
In addition, on March 16, 2006, the authorized share capital of XFM was increased to $1,000,000 and thereafter, be redesignated and reclassified into (a) 22,000,000 preferred shares of $0.001 each and (b) 978,000,000 common shares of $0.001 each. Accordingly the amended authorized share capital is $1,000,000 divided into 978,000,000 common shares of a nominal or par value of $0.001 each and 22,000,000 preferred shares of a nominal or par value of $0.001 each.
On July 24, 2006, XFM redesignated its 42,614,289 common shares held by XFL as class B common shares and 11,050,000 nonvested shares held by a director, Fredy Bush, as class A common shares.
The class A common shares shall entitle the holder to one vote per share; entitle the holder to such dividends as the Board may from time to time declare; in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or for the purpose of a reorganization or otherwise or upon any distribution of capital, entitle to the surplus assets of the Company; and generally entitle the holder to enjoy all of the rights attaching to class A common shares.
The class B common shares shall entitle the holder to ten votes per share; entitle the holder to convert such shares into class A common shares on a one to one basis at any time upon delivery of written notice to the Board of Directors; upon any sale, pledge, transfer, assignment or disposition of class B common shares by a holder thereof to any person or entity which is not at any time a wholly-owned and wholly-controlled subsidiary of XFL, automatically convert into class A common shares (and, for the avoidance of doubt, at any time such subsequent holder ceases to be a wholly-owned and wholly-controlled subsidiary of XFL, the class B common shares held by such holder shall automatically convert into class A common shares; and otherwise rank pari passu with the class A common shares.
On September 20, 2006, 6,400,000 authorized and unissued Preferred Shares were cancelled and the authorized number was reduced to 15,600,000 Preferred Shares.
On September 21, 2006, 5,761,317 and 1,679,012 class B common shares were issued to XFL for the acquisition of 50% equity interests of Economic Observer Advertising and 51% equity interest of Shanghai Hyperlink, respectively.
On September 22, 2006, pursuant to a number of share subscription agreements, XFM issued 125,053 and 1,613,169 and 5,761,317 class A common shares to three individuals in exchange for their entering into Deeds of Non-Competition Undertaking and Release with XFM and Beijing Century Media, Shanghai Hyperlink, and Economic Observer Advertising respectively, for

Table of Contents

a term of four years as part of the acquisitions of Beijing Shiji Guangnian Advertising Co., Ltd. ("Beijing Century Advertising"), Shanghai Hyperlink and Economic Observer Advertising.

On September 22, 2006, 6,929,544 class A common shares were issued to Sino Investment for its investments in Upper Step and Accord Group.

On November 1, 2006, pursuant to a share subscription agreement, XFM issued 6,532,071 and 6,532,071 class A common shares to an individual in exchange for his entering into a Deed of Non−Competition Undertaking and Release with XFM and Beijing Century Advertising for a term of four years as part of the acquisition of Accord Group and Upper Step.

18. Share options

Pursuant to the directors' resolution on July 11, 2006, the Company granted options to employees for the purchase of a maximum of 11,727,602 shares in the Company, subject to vesting requirements. The options entitle the option holder to acquire one ordinary share of the Company at an exercise price of $0.78 per share.

The key terms of the share options are as follows:

Termination of options. Where the option agreement permits the exercise or purchase of the options granted for a certain period of time following the recipient's termination of service with us, or the recipient's disability or death, the options will terminate to the extent not exercised or purchased on the last day of the specified period or the last day of the original term of the options, whichever occurs first.

Vesting period. In general, options granted under our individual option agreements will vest in the following manner. The first half of any option grant will vest upon the earlier of the date of the initial public offering and December 31, 2007. The next two quarters will vest on December 31, 2008 and 2009, respectively. For options under the share option plan, this will be subject to the discretion of the option administrative committee.

Option exercise. The term of options granted under individual option agreements may not exceed five years from the date of grant. The consideration to be paid for XFM shares upon exercise of an option or purchase of shares underlying the option will be determined by the plan administrator and may include a certified or cashier's check or consideration received by us under a cashless exercise program implemented by us in connection with the XFM share option agreement, or any combination of the foregoing methods of payment.

Termination of option agreements. Unless terminated earlier, XFM share options granted under individual option agreements will expire in 2011. XFM's board of directors will have the authority to amend or terminate XFM's share option agreement subject to shareholder approval to the extent necessary to comply with applicable law.

The excisable period of the option is 5 years up to 2011. During the year ended December 31, 2006, compensation expense of $626,858 was recognized and included in general and administrative expenses.

Table of Contents

Management has used the Black–Scholes option pricing model to estimate the fair value of the options on grant date with the following assumptions:

Expected price volatility		38.3%
Risk–free interest rate		5.68%
Expected life		3.61
Expected dividends		0%
Fair value on grant date	$	0.14

A summary of options under the plan as of December 31, 2006 and changes in the period is presented below:

Options	Number of Share Option		Exercise Price
Outstanding as of January 1, 2006	—		—
Granted on July 11, 2006	11,198,180	$	0.78
Exercised	—		—
Forfeited	(500,039)		0.78
Outstanding as of December 31, 2006	10,698,141	$	0.78
Exercisable as of December 31, 2006	—	$	0.78

The grant date fair value was $0.14 for each option.
As of December 31, 2006, there was $940,887 of total unrecognized compensation cost related to nonvested share options granted during the year. That cost is expected to be recognized over 3 years.

19. Provision for income taxes

XFM is a tax exempted company incorporated in the Cayman Islands. The Company's subsidiaries incorporated in Hong Kong and PRC are subject to Hong Kong Profits Tax and foreign Enterprise Income Tax in the PRC.
The Company's subsidiaries incorporated in Hong Kong are taxed at 17.5% on the assessable profits arising in or derived from Hong Kong. For those Hone Kong subsidiaries which generate PRC sourced income, PRC income tax should still be payable on the assessable profits at 33%.
The Company's subsidiaries incorporated in the PRC are generally subject to income tax at a statutory rate of 33% in respect of its profits (30% state income tax plus 3% local income tax) on PRC taxable income. Some of the PRC subsidiaries are currently tax exempted or subject to income tax at a reduced tax rate of 15% according to the relevant tax incentives. In particular, the subsidiaries of "cultural education enterprises" are generally exempt from income tax for the first year since their commencement of business, while those of "information enterprises" are generally exempt from income tax for the first and second year since their commencement of business.

Table of Contents

Provision for income taxes comprises of the following:

	For the period from May 26, 2005 (date XFL acquired EconWorld Media Limited, the predecessor to XFM) to December 31, 2005	For the year ended December 31, 2006
Current Tax	$840,540	$1,770,278
Deferred Tax	88,094	(700,741)
Total	$928,634	$1,069,537

The principal components of the deferred income tax assets and liabilities are as follows:

	At December 31,			
		2005		2006
Deferred tax assets:				
Capitalized content production cost	$	44,007	$	32,437
Net operating losses		521,489		3,423,559
Others		6,850		14,463
Total		572,346		3,470,459
Less: valuation allowance		(528,339)		(3,438,022)
Deferred tax assets, net	$	44,007		32,437
Deferred tax liability:				
Intangible assets	$	207,125	$	41,168,035
Total	$	(163,118)	$	(41,135,598)

Due to the uncertainty of the level of PRC statutory income and the Company's lack of operating history, management does not believe certain subsidiaries will generate taxable PRC statutory income in the near future and it is more likely than not that not all of the deferred tax assets will be realized, a valuation allowance has been established for the certain amount of deferred tax assets at December 31, 2005 and December 31, 2006. The Company has operating loss carry forwards of $2,198,306 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005 and $11,050,028 for the year ended December 31, 2006. The net operating loss carry forwards for the PRC subsidiaries expire on various dates through 2011 and the net operating loss carry forwards for the Hong Kong subsidiaries which may carry forward indefinitely.

As of December 31, 2006, valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of the acquired entities amounted to approximately $2,204,000.

Table of Contents

Reconciliation between the provision for income taxes computed by applying the PRC enterprise income rate of 33% to income before income taxes and the actual provision for income taxes is as follows:

	For the period from May 26, 2005 (date XFL acquired EconWorld Media Limited, the predecessor to XFM) to December 31, 2005	For the year ended December 31, 2006
Net income before provision for income taxes	$2,408,305	$6,170,326
PRC statutory tax rate	33%	33%
Income tax at statutory tax rate	794,741	2,036,208
Expenses not deductible for tax purposes:		
Entertainment	5,194	87,524
Salaries and employees' benefits	58,462	468,998
Allowance for inter–company balance	—	163,481
Other	101,071	75,830
Effect of income tax rate differences in other jurisdictions	(42,185)	2,319,620
Changes in valuation allowances	79,143	705,553
Foreign income taxes	65,640	183,797
Effect of tax exemptions	(136,174)	(4,997,098)
Other	2,742	25,624
Provision for income taxes	$ 928,634	$1,069,537

PRC income taxes that would have been payable without the tax exemptions amounted to approximately $136,000 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005 and approximately $4,997,000 for the year ended December 31, 2006. Basic and diluted net income per share would have been decreased to $0.029 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005 and basic and diluted net loss per share would have been increased to $0.184 for the year ended December 31, 2006.

Table of Contents

20. Related party transactions

Amounts due from (to) related parties were as follows:

	At December 31, 2005	At December 31, 2006
Due from related parties:		
Due from affiliates(a)	$ —	$ 4,868,335
Due from directors(b)	—	205,000
Due from minority shareholders(c)	40,941	—
Due from a related company(d)	—	3,713,806
Total	$ 40,941	$ 8,787,141
Due to related parties:		
Due to directors(b)	—	109,124
Due to former shareholder of subsidiaries	—	2,035,506
Due to a minority shareholder(c)	909,387	222,533
Total	$ 909,387	$ 2,367,163
Due to Parent and its affiliates(e)	$5,599,545	$138,694,299
Promissory note receivable	—	$ 7,900,000

(a) Amounts due from affiliates principally represented advance to investee and a former shareholder of a subsidiary and are non−interest bearing and repayable on demand.

(b) Amounts due from and to directors represented advance from and to directors of subsidiaries and are non−interest bearing and repayable in demand.

(c) Amounts due from minority shareholders represented advances to minority shareholders of subsidiaries. These amounts are non−interest bearing and are due on demand. Amounts due from minority shareholders are expected to be collectible, therefore, no allowance for uncollectible amount was considered necessary at December 31, 2005. Amount due to a minority shareholder as of December 31, 2005 represented borrowings from an EconWorld Media shareholder and bore interest at 4.5% on the unpaid balance payable at the time the principal balance was paid.

(d) Amount due from a related company represented advances to a related company owned by one of the Company's shareholders which is non−interest bearing and repayble within one year. Out of the total amount, $2,000,000 is secured by the registered capital of the borrower.

(e) Amounts due to XFL and its affiliates represented amounts borrowed from XFL and subsidiaries of XFL which are not members of the Company and are due on demand. The balance as of December 31, 2006 included two promissory notes amounting to $106,751,685, which includes the initial consideration of $3,000,000 paid for the acquisition of Beijing Century Media, additional consideration and transaction cost of $8,728,570 in respect of the acquisition of Beijing Century Media, contingent consideration of $7,862,500 to be paid based on the net income of 2006 and 2007, estimated employee bonus paid or payable of $1,081,250 in relation to acquisition of Beijing Century Media; and, of contingent consideration of $47,860,102 for the acquisition of XFA paid or payable based

Table of Contents

on the net income of 2005 and 2006; consideration of $440,000 paid for the acquisition of Accord Group, $5,131,517 deposit paid for the proposed acquisition of 19% equity interest in Upper Step, initial consideration of $29,000,000 paid for the acquisition of XFA and contingent consideration of $3,647,746 paid for the acquisition of XFA. Both notes are due on demand and the interest rates are not specified. XFM issued the promissory notes to borrow money from XFL and XFN to pay for the costs related to XFM's acquisition of XFA, Upper Step, and Accord Group and the contractual control of Beijing Century Media. The transaction agreements for some of these acquisitions contain earn–out provisions that would require payment of additional consideration based on the financial performance of the acquired companies. These earn–out considerations are the obligations of XFL. While not specified in the contract XFL may request that the Company pay any difference between those payments and amounts due under the promissory notes.

As of December 31, 2005, the amount due to parent and its affiliates of $5,599,545 included the initial consideration for Beijing Century Media of $3,000,000 (Note 3), $1,500,000 for the 60% interest in EconWorld Media and two other promising notes for $500,000 in total. During the year ended December 31, 2006, the Company issued common shares to settle the aforesaid share subscription in EconWorld Media, earn–out considerations for the acquisition and other transaction costs and repaid the two promising notes.

On February 14, 2006, EconWorld Media issued a promissory note in the amount of $1,330,000 to XFN. The promissory note was due on June 30, 2006 and the interest rate was 4% per annum. The note was for working capital purposes and was settled on June 9, 2006.

On April 18, 2006, the Company entered into an advisory agreement with Patriarch Partners Management Group, LLC and XFL. Patriarch Partners Management Group, LLC, being the holder of preferred shares and convertible loan of the Company, is to act as advisor to the Company in making acquisitions of the majority of stock or assets in target companies. It is agreed to pay a success fee to Patriarch Partners Management Group, LLC for each successful acquisition in an amount to be mutually agreed, and not to exceed $5.0 million. During the year ended December 31, 2006, the Company paid $3.5 million consulting fees under this agreement. The agreement will be terminated on April 18, 2007.

On September 21, 2006, 5,761,317 class B common shares of the Company was allotted and issued to XFL for the acquisition of 50% equity interests of Economic Observer Advertising and 1,679,012 class B common shares of the Company was allotted and issued to XFL for the acquisition of 51% equity interests of Shanghai Hyperlink respectively.

On September 22, 2006, XFM obtained the 37% equity of Upper Step from Sino Investment, which was then 50% owned by one of the Company's senior management officers, for a total consideration of $18,954,281, and paid $7,900,000 on behalf of Sino Investment to the vendor. Sino Investment issued a promissory note in the amount of $7,900,000 to the Company. The amount is repayable on demand and has no specified interest rate stated in the promissory note.

On September 13, 2006, the Company entered into a Group Services Agreement with XFL. Under this agreement, certain services shall be provided to XFM in exchange for a variable charge. The services include a wide range of services including management, human resources, finance, legal, corporate communications, public relations, information technology and

Table of Contents

administrative services. The agreement expires on December 31, 2007 and is renewable for two–year terms, and may be terminated upon six months' notice, upon material breach, insolvency, or if we are no longer a controlled subsidiary of our parent. On January 25, 2007, the Group Services Agreement was amended to provide that charges for 2006 under the agreement would not exceed $700,000 and for subsequent years would not exceed $1.0 million. For 2006, the group services charges paid or payable by XFM was $700,000 under the Group Services Agreement.
On September 21, 2006, we entered into a Trademark License Agreement with XFN. Under this agreement, XFN granted the Company a non–exclusive license worldwide to use certain Xinhua trademarks in consideration for an annual license fee of $50,000. The contract has a term of 15 years and expires on September 20, 2021. There is no specific renewability provision.

21. Dividends

The Company has declared and paid $1,943,333 preferred shares dividend for the period from the date of issuance of the Preferred Shares to July 24, 2006 (Note 14(a))
On September 20, 2006, the board of directors declared cash dividends in total of $3,391,667 to the holder of Preferred Shares. The amount has been charged to retained earnings. Out of the total $3,391,667, $1,705,000 cash dividends was paid and the remaining $1,686,667 was recorded in other payable as of December 31, 2006.

22. Commitments

(a) Purchase of program rights

The Company entered into an agreement for the purchase of program rights for a total of $802,568 at December 31, 2005 and $1,932,288 at December 31, 2006. Unexpended balance totaled $740,832 at December 31, 2005 and $829,844 at December 31, 2006.

(b) Operating leases

The Company has operating lease agreements principally for its office spaces in the PRC and Hong Kong. These leases expire through March 2011 and are renewable upon negotiation. Rent expenses were $51,391 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005; and $889,080 for the year ended December 31, 2006.
Future minimum lease payments under non–cancelable operating lease agreements are as follows at December 31, 2006:

2007	$742,402
2008	130,123
2009	44,225
2010	44,225
2011	11,057
Total	$972,032

Table of Contents

(c) Other

The Company has entered into an agreement to purchase advertising airtime from radio stations for a period of twenty years. As of December 31, 2006, future minimum purchase commitments under the agreements totaled approximately $75,925,000. The Company is committed to pay approximately $3 million to $4 million in each of the next five years and the remainder of approximately $56.0 million in fifteen years thereafter.

The Company also has a number of agreements to purchase advertising airtime from television programme producers. As of December 31, 2006, future minimum fee commitments under the agreements totaled approximately $8,364,000 and approximately $7,281,000 will be paid next year and the remainder within 2008.

The Company also has a number of agreements to obtain advertising rights from publishers and other parties in the PRC. As of December 31, 2006, future minimum agency fee under the agreements totaled approximately $2,053,000.

The Company entered into a number of agreements to obtain advertising production and network services from various services providers. As of December 31, 2006, future minimum services fee commitments under the agreements totaled approximately $1,339,000 and approximately $823,000 of which will be paid in 2007, and approximately $80,000 will be paid in each of 2008 through 2012.

23. Segment information

During the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM), to December 31, 2005, the Company operated in two reportable segments that include media production and print. With the acquisitions of various companies during the year 2006, the Company currently operates in five reportable segments that include media production, print, advertising, broadcasting and research. Each reportable segments are separately organized and provide distinct products and services to different customer groups. Each reportable segment prepares a stand–alone set of financial reporting package including information such as revenue, expenses, and capital expenditures, and the package is regularly reviewed by the chief operating decision maker. During the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005 and year ended December 31, 2006, the Company's chief operating decision maker was the Chief Executive Officer.

Table of Contents

The following is a summary of relevant information relating to each segment reconciled to amounts on the accompanying consolidated financial statements for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005:

	Media production	Print	XFM Corporate	Total
Net revenues:				
Media production	$ 3,640,792	$ —	$ —	$ 3,640,792
Advertising sales	—	386,668	—	386,668
Advertising services	—	580,133	—	580,133
Publishing services	—	787,451	—	787,451
Total net revenues	$ 3,640,792	$ 1,754,252	$ —	$ 5,395,044
Depreciation and amortization	461,352	115,971	—	577,323
Cost of revenues and operating expenses excluding depreciation and amortization	459,460	1,626,711	301,117	2,387,288
Operating income (loss)	2,719,980	11,570	(301,117)	2,430,433
Other expense, net				22,128
Income before provision for income taxes and minority interest				2,408,305
Provision for income taxes				928,634
Net income before minority interest				1,479,671
Minority interest	128,773	—	—	128,773
Net income				$ 1,350,898
Total assets, excluding goodwill	$ 3,797,453	$ 2,438,893	$ —	$ 6,236,346
Goodwill	2,457,550	1,612,653	—	4,070,203
Capital expenditures	60,470	27,593	—	88,063

Table of Contents

The following is a summary of relevant information relating to each segment reconciled to amounts on the accompanying consolidated financial statements for the year ended December 31, 2006:

	Media production	Print	Advertising	Research	Broadcasting	XFM Corporate	Total
Net revenues:							
Media production	$ 6,545,148	$ —	$ —	$ —	$ —	$ —	$ 6,545,148
Advertising sales	—	6,303,646	—	—	387,897	—	6,691,543
Advertising services	—	6,418,279	35,628,274	1,802,660	1,012,739	—	44,861,952
Publishing services	—	867,789	—	—	—	—	867,789
Total net revenues	$ 6,545,148	$ 13,589,714	$ 35,628,274	$ 1,802,660	$ 1,400,636	$ —	$ 58,966,432
Depreciation and amortization	1,263,793	795,398	2,489,034	110,097	570,899	6,631	5,235,852
Cost of revenues and operating expenses excluding depreciation and amortization	2,538,522	7,111,971	26,177,829	1,078,565	1,988,200	7,767,516	46,662,603
Operating income (loss)	2,742,833	5,682,345	6,961,411	613,998	(1,158,463)	(7,774,147)	7,067,977
Other expenses, net							897,651
Income before provision for income taxes and minority interest							6,170,326
Provision for income taxes							1,069,537
Net income before minority interest							5,100,789
Minority interest	32,417	1,495,008	703,332	66,129	(592,599)	—	1,704,287
Equity in loss of an investment	—	—	—	—	52,211	—	52,211
Net income							$ 3,344,291
Total assets, excluding goodwill	$ 5,253,462	$ 71,892,068	$ 26,904,500	$ 2,865,901	$ 123,771,680	$ 85,092,679	$ 315,780,290
Goodwill	11,192,702	6,566,376	54,534,384	4,102,074	7,274,474	—	83,670,010
Capital expenditures	1,093,472	1,963,144	430,415	47,111	2,707,830	81,879	6,323,851

24. Employee benefit plans

Employees of the Company and its subsidiaries located in Hong Kong are covered by the Mandatory Provident Fund Scheme ("MPF Scheme") established on December 1, 2000 under the Mandatory Provident Fund Scheme Ordinance of Hong Kong. The calculation of contributions for these eligible employees is based on 5% of the applicable payroll costs, and contributions are matched by the employees. The amounts paid by the Company to the MPF Scheme were $3,780 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005; and $41,427 for the year ended December 31, 2006.

Table of Contents

Employees of the Company located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The amounts to be contributed are determined based on 20% of the applicable payroll costs. The amounts paid by the Company to these defined contribution schemes were $26,980 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005; and $214,129 for year ended December 31, 2006.

In addition, the Company is required by law to contribute medical insurance benefits, housing funds, unemployment, and other statutory benefits ranging from 1% to 10% of applicable salaries. The PRC government is directly responsible for the payment of the benefits to these employees. The amounts contributed for medical insurance benefits were $11,808 for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005; and $131,289 for the year ended December 31, 2006, respectively. The amounts contributed for housing funds was $12,708 in 2005 and $38,649 for the year ended December 31, 2006, respectively. The amounts contributed for other benefits were not material for the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005; and the amounts contributed for other benefits was $181,933 for the year ended December 31, 2006.

25. Statutory reserves

As stipulated by the relevant laws and regulations in the PRC, the Company is required to maintain non–distributable reserves which include a statutory surplus reserve and a statutory welfare reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of profit after taxes as reported in the Company's PRC statutory financial statements. The statutory welfare reserve allocations are determined annually at the discretion of the Company's board of directors. Once appropriated, these amounts are not available for future distribution to owners or shareholders. The statutory surplus reserve may be applied against prior year losses, if any, and may be applied to the purchase of capital assets upon the board of directors' approval. Amounts contributed to the statutory surplus reserve and the statutory welfare reserve were not material during the period from May 26, 2005 (date XFL acquired EconWorld Media, the predecessor to XFM) to December 31, 2005; and for the year ended December 31, 2006.

26. Subsequent events

On January 4, 2007, the Company borrowed from bank $5,377,721 (RMB42 million) which is secured by a cash deposit of $6 million, carries interest at 5.51% per annum and repayable on January 4, 2008.

On January 15, 2007, the Company issued warrants to purchase 221,280 class A common shares to a former staff with a strike price of $5 per share. The warrants are vested upon the date of grant. The fair value of the warrants was approximately $2.08 per warrant at the date of grant.

On February 7, 2007, the shareholders of the Company adopted a 2007 share option plan, under which the Company may grant its employees, directors and consultants various types of awards including options to purchase common shares of the Company, restricted shares or restricted share units. The maximum aggregate number of shares that may be issued pursuant to all awards is equal to the lesser of (i) 19,530,205 common shares, or (ii) a lesser number of

Table of Contents

common shares determined by the administrator of the plan. The term of each award under the 2007 share option plan will be specified in the award agreement, but the life of any award may not exceed ten years from the adoption of the plan

On February 20, 2007, a written resolution was passed by the sole director of the Company pursuant to which the vesting of 10,415,000 class A nonvested shares held by the family trust fund of Fredy Bush was revised as such 3,000,000 of such shares will vest upon the Securities and Exchange Commission's declaration of effectiveness of the Company's registration statement on Form F−1, 1,420,000 of such shares will vest on June 13, 2008, 2,210,000 of such shares will vest each on June 13, 2009 and 2010, and the remaining 525,000 shares will vest on June 13, 2011. All other restrictions of these shares will remain unchanged.

Table of Contents

Report of independent registered public accounting firm

To the Board of Directors and Shareholders of
EconWorld Media Limited:

We have audited the accompanying consolidated balance sheets of EconWorld Media Limited (the predecessor to Xinhua Finance Media Limited) and its subsidiaries (collectively, the "Company") as of December 31, 2004 and May 25, 2005, and the related consolidated statements of operations, shareholders' deficiency and comprehensive loss, and cash flows for the year ended December 31, 2004 and period from January 1, 2005 to May 25, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and May 25, 2005 and the consolidated results of its operations and its cash flows for the year ended December 31, 2004 and period from January 1, 2005 to May 25, 2005 in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Hong Kong
September 22, 2006

Table of Contents

EconWorld Media Limited
(The predecessor to Xinhua Finance Media Limited)
Consolidated balance sheets

(In U.S. dollars)		December 31, 2004		May 25, 2005
Assets				
Current assets:				
Cash	$	20,852	$	46,267
Accounts receivable, less allowance for doubtful accounts of $nil at December 31, 2004 and $39,511 at May 25, 2005		69,384		153,499
Prepaid expenses and other current assets		22,921		23,135
Deferred tax assets		16,234		38,493
Amounts due from related parties		8,825		14,876
Total current assets		138,216		276,270
Property and equipment, net		60,202		71,060
Total	$	198,418	$	347,330
Liabilities and shareholders' deficiency				
Current liabilities:				
Accounts payable	$	31,880	$	123,687
Accrued expenses and other payables		227,852		313,050
Amounts due to related parties		938,428		1,381,648
Deferred revenue		50,000		—
Income taxes payable		20,795		38,854
Total liabilities		1,268,955		1,857,239
Commitments (Note 9)				
Ordinary shares, par value HK$0.01; authorized 1,000,000 shares; issued and outstanding 95,000 and 140,000 shares at December 31, 2004 and May 25, 2005, respectively		122		180
Additional paid–in capital		652,858		1,102,800
Accumulated deficit		(1,723,517)		(2,607,985)
Accumulated other comprehensive loss		—		(4,904)
Total shareholders' deficiency		(1,070,537)		(1,509,909)
Total	$	198,418	$	347,330

See notes to consolidated financial statements

Table of Contents

EconWorld Media Limited
(The predecessor to Xinhua Finance Media Limited)
Consolidated statements of operations

(In U.S. dollars)		For the year ended December 31, 2004		For the period ended May 25, 2005
Net revenues:				
Advertising sales	$	47,537	$	240,490
Advertising services		300,847		52,648
Publishing services		52,196		55,218
Total net revenues		400,580		348,356
Cost of revenues and expenses:				
Cost of revenues				
Advertising sales		34,535		41,485
Advertising services		248,324		66,303
Publishing services		325,303		346,945
Total cost of revenues		608,162		454,733
Operating expenses:				
Selling and distribution		418,283		322,181
General and administrative		607,452		456,495
Total operating expenses		1,025,735		778,676
Loss from operations		(1,233,317)		(885,053)
Other income (expenses):				
Interest expenses		(9,974)		(5,660)
Other income		284		2,384
Loss before income taxes (benefit)		(1,243,007)		(888,329)
Provision for income taxes (benefit)		4,561		(3,861)
Net loss	$	(1,247,568)	$	(884,468)
Net loss per share, basic and diluted	$	(13.13)	$	(7.85)
Weighted average shares outstanding, basic and diluted		95,000		112,690

See notes to consolidated financial statements

Table of Contents

EconWorld Media Limited
(The predecessor to Xinhua Finance Media Limited)
Consolidated statements of shareholders' deficiency and comprehensive loss

For the year ended December 31, 2004 and period ended May 25, 2005

(In U.S. dollars)	Ordinary shares Number of shares	Ordinary shares Par value	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total	Comprehensive loss
Balance, January 1, 2004	95,000	$ 122	$ 652,858	$ (475,949)	$ —	$ 177,031	
Net loss	—	—	—	(1,247,568)	—	(1,247,568)	$ (1,247,568)
Balance, December 31, 2004	95,000	122	652,858	(1,723,517)	—	(1,070,537)	
Issuance of ordinary shares	45,000	58	449,942	—	—	450,000	
Foreign currency translation loss					(4,904)	(4,904)	$ (4,904)
Net loss	—	—	—	(884,468)	—	(884,468)	(884,468)
Balance, May 25, 2005	140,000	$ 180	$ 1,102,800	$ (2,607,985)	$ (4,904)	$ (1,509,909)	$ (889,372)

See notes to consolidated financial statements

Table of Contents

EconWorld Media Limited
(The predecessor to Xinhua Finance Media Limited)
Consolidated statements of cash flows

(In U.S. dollars)	For the year ended December 31, 2004	For the period ended May 25, 2005
Cash flows from operating activities:		
Net loss	$ (1,247,568)	$ (884,468)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	17,869	10,734
Provision for doubtful accounts	—	39,511
Write–off of inventory	13,362	—
Deferred income taxes	(16,234)	(21,919)
Changes in operating assets and liabilities:		
Accounts receivable	115,168	(122,639)
Prepaid expenses and other current assets	(22,921)	2,043
Accounts payable	31,880	89,630
Accrued expenses and other payables	53,752	84,915
Deferred revenue	50,000	(50,000)
Income taxes payable	20,795	18,059
Cash used in operating activities	(983,897)	(834,134)
Cash flows from investing activities:		
Purchases of property and equipment	(37,187)	(20,797)
Amounts due from related parties	(3,214)	(6,051)
Cash used in investing activities	(40,401)	(26,848)
Cash flows from financing activities:		
Issuance of ordinary shares	—	450,000
Amounts due to related parties	913,707	436,220
Cash provided by financing activities	913,707	886,220
Effect of exchange rate changes	—	177
Net (decrease) increase in cash	(110,591)	25,415
Cash, beginning of the period	131,443	20,852
Cash, end of the period	$ 20,852	$ 46,267
Supplemental disclosure of cash flow information:		
Interest paid	$ 9,974	$ 5,660

See notes to consolidated financial statements

Table of Contents

EconWorld Media Limited
(The predecessor to Xinhua Finance Media Limited)
Notes to consolidated financial statements

For the year ended December 31, 2004
and period ended May 25, 2005
(In U.S. dollars)

1. Organization and principal activities

EconWorld Media Limited ("EconWorld Media", the predecessor to Xinhua Finance Media Limited) was incorporated in Hong Kong on March 13, 2003. EconWorld is the predecessor to Xinhua Finance Media Limited, a Cayman Islands company and a wholly–owned subsidiary of Xinhua Finance Limited ("XFL", a Tokyo Stock Exchange listed company). EconWorld Media and its subsidiaries (collectively, the "Company") have the exclusive rights to sell advertising for and provide management and information consulting services to Money Journal and also provide advertising placement and advertising related services to customers in the People's Republic of China ("PRC") and Hong Kong. On May 26, 2005, XFL acquired 210,000 shares, or 60%, of EconWorld Media's ordinary shares. XFL has agreed to provide continuous financial and operational support to EconWorld Media.
The following is a description of EconWorld Media's wholly–owned subsidiaries and their businesses:

- Money Journal Publication Limited ("Money Journal Publication"), a wholly–owned subsidiary of EconWorld Media, was incorporated in Hong Kong on January 14, 2004 and is engaged in the provision of management and information consulting services to Money Journal. The primary sources of Money Journal Publication's revenue are advertising agency and marketing services and the sale and circulation of Money Journal.

- Money Journal Advertising Company Limited ("Money Journal Advertising Hong Kong"), a wholly–owned subsidiary of Money Journal Publication, was incorporated in Hong Kong on September 28, 2004 and has not had significant business activities to date.

- EconWorld Publishing Limited ("EconWorld Hong Kong"), a wholly–owned subsidiary of EconWorld Media, was incorporated in Hong Kong on June 27, 2003 and is engaged in the publishing and circulation of books. EconWorld Hong Kong sells its publications through a single distributor. All of the books are published by a single printing company. Revenue from book sales is not material to date.

- Financial World (Shanghai) Co., Limited ("Financial World"), a wholly–owned subsidiary of EconWorld Media, was established in the PRC on April 29, 2003 for a term of 10 years and is engaged in the provision of management and information consulting services on the publishing and circulation of books and magazines in the PRC. Revenue is primarily generated from magazine subscriptions and book and magazine sales.

- EconWorld (Shanghai) Co., Limited ("EconWorld Shanghai"), a wholly–owned subsidiary of EconWorld Media, was established in the PRC on April 29, 2003 for a term of 10 years and is primarily engaged in event organization for its customers in Shanghai.

Table of Contents

- On September 14, 2004, Money Journal Publication signed a cooperation agreement with the equity owners of Beijing Qiannuo Advertising Co., Ltd ("Beijing Qiannuo") to operate Beijing Qiannuo for a term of five years. The Company is responsible for Beijing Qiannuo's operations including revenue earned and costs incurred. Under the agreement, the Company will pay the equity owners an amount equaling to a percentage of Beijing Qiannuo's annual revenue. Beijing Qiannuo has the exclusive rights to sell advertising for the magazine Money Journal to its corporate advertiser customers. The agreement provides Money Journal Publication a beneficial interest in Beijing Qiannuo. A variable interest entity ("VIE") is an entity in which equity investors generally do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. A VIE is consolidated by its primary beneficiary when it is determined that the primary beneficiary will absorb the majority of the VIE's expected losses and/or expected residual returns. Consistent with the provisions of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51" (as revised, "FIN 46R"), Beijing Qiannuo is accounted for as a VIE of Money Journal Publication.

The following financial statement amounts and balances of Beijing Qiannuo for the period from September 14, 2004 (effective date of the cooperation agreement) and from January 1, 2005 to May 25, 2005 were included in the accompanying consolidated financial statements:

	December 31, 2004	May 25, 2005
Total assets	$ 175,375	$ 319,053
Total liabilities	154,749	352,536
Total net revenues	69,308	240,490
Total operating expenses	117,924	222,463
Net loss	66,904	54,539

2. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of consolidation

The consolidated financial statements include the financial statements of EconWorld Media, its wholly–owned subsidiaries, and Beijing Qiannuo. All significant intercompany transactions and balances are eliminated during consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could

Table of Contents

differ from those estimates. Significant accounting estimates reflected in the accompanying consolidated finance statements include allowance for doubtful accounts, valuation of deferred tax assets, and useful lives of property and equipment.

(d) Revenue recognition

Advertising sales revenues are recognized when advertisements are published net of provisions for estimated rate adjustments and discounts. Payments received in advance are deferred until earned and such amounts are reported as deferred revenue on the accompanying consolidated balance sheets.

Publishing services revenues include management and information consulting fees relating to magazine subscriptions and sale of Money Journal. Magazine subscription revenues are recognized over the subscription period. Single copy sales of magazines through distributors or retail outlets such as newsstands, supermarkets, and convenience stores are recognized when sold to the ultimate customers. Revenue from book sales is recognized when books are sold to end customers. To date, revenue from book sales has not been significant. The Company does not carry book and magazine inventories on its consolidated balance sheets. Costs of books and magazines published are charged to cost of revenues when incurred.

Advertising services include revenues from event organization and advertising agency and marketing services and are generally recognized as services are provided.

Revenues are recorded net of applicable business and value added taxes which totaled $18,602 and $11,165 for the year ended December 31, 2004 and the period ended May 25, 2005, respectively.

The Company extends credit based upon an evaluation of the customer's financial condition and collateral is not required from such customers. Allowances for estimated credit losses, rate adjustments and discounts are generally established based on historical experience. As of December 31, 2004 and May 25, 2005, such allowances were not material.

In the normal course of business, the Company acts as or uses an intermediary or agent in executing transactions with third parties. Such transactions are recorded on a gross or net basis depending on whether the Company is acting as the principal or as an agent in the transaction. The Company serves as the principal in transactions in which it has substantial risks and rewards of ownership and, accordingly, records revenue on a gross basis. For those transactions in which the Company does not have substantial risks and rewards of ownership, the Company is considered an agent in the transaction and, accordingly, records revenue on a net basis.

(e) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight−line basis over the following estimated useful lives:

Leasehold improvements	Lesser of 4 years or lease term
Furniture, fixtures and equipment	4 years

Table of Contents

(f) Impairment of long–lived assets
The Company evaluates its long–lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss as the excess of carrying amounts over fair value of the assets. There were no impairment losses recorded in the year ended December 31, 2004 and the period ended May 25, 2005.

(g) Income taxes
Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non–current based on their characteristics.

(h) Foreign currency translation
EconWorld Media's functional currency is the Hong Kong dollars. The functional currencies of EconWord Media's subsidiaries are either the Renminbi ("RMB") or Hong Kong dollars ("HKD"). Transactions denominated in other currencies are translated into RMB or HKD, as appropriate, at the average rates of exchange prevailing during each period. Monetary assets and liabilities denominated in other currencies are translated into RMB at rates of exchange in effect on the balance sheet dates. Nonmonetary assets and liabilities arc remeasured into RMB or HKD at historical exchange rates. To date, transactions in HKD have not been significant.

The Company uses the U.S. dollar as its reporting currency. Accordingly, assets and liabilities are translated using exchange rates in effect at cach balance sheet date and average exchange rates for the periods are used for revenue and expense transactions.

Currency transaction gains and losses are recorded in the consolidated statements of operations. Translation adjustments are recorded in accumulated other comprehensive income, a component of shareholders' deficiency. Both transaction gains and losses and translation adjustments are not material for the year ended December 31, 2004 and the period ended May 25, 2005.

(i) Concentration of credit risk
Financial instruments that potentially expose the Company to concentrations of credit risk consisted primarily of cash, accounts receivable, and amounts due from related parties.

Table of Contents

The following customers contributed 10% or more of the Company's revenues during the year ended December 31, 2004 and period ended May 25, 2005:

		2004		2005
Customer A	$	150,000	$	*
Customer B		130,219		*

* *Represents less than 10% of revenue.*

Five customers as of December 31, 2004 accounted for 10% or more of the Company's accounts receivable balance, representing an aggregate of 78% of the Company's accounts receivable balance at December 31, 2004. No single customer accounted for 10% or more of the Company's accounts receivable balance at May 25, 2005. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts and such losses have been within management's expectations.

All of the Company's revenue for the year ended December 31, 2004 and period ended May 25, 2005 is primarily generated from the PRC.

(j) Fair value of financial instruments

The carrying amounts of accounts receivable, amounts due from related parties, accounts payable, accrued expenses and other payables, and amounts due to related parties approximate their fair values due to the short–term maturity of these instruments.

(k) Net loss per share

Basic net loss per share is computed by dividing net loss attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year and period. Diluted net loss per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Ordinary share equivalents are excluded from the computation in loss periods as their effects would be anti–dilutive. No dilutive potential ordinary shares equivalents were outstanding as of December 31, 2004 and May 25, 2005.

(l) Comprehensive loss

Comprehensive loss is reported on the accompanying consolidated statements of shareholders' deficiency and consisted of net loss and foreign currency translation gains and losses.

Table of Contents

3. Property and equipment, net

Property and equipment, net consisted of the following at December 31, 2004 and at May 25, 2005:

	2004	2005
Leasehold improvements	$ 770	$ 770
Furniture, fixtures and equipment	84,289	105,880
Total	85,059	106,650
Less: accumulated depreciation and amortization	24,857	35,590
Property and equipment, net	$ 60,202	$ 71,060

Depreciation and amortization expenses were $17,869 and $10,734 for the year ended December 31, 2004 and period ended May 25, 2005, respectively.

4. Capital structure

The following is a summary of ordinary share transactions for the year ended December 31, 2004 and the period ended May 25, 2005:

	Number of shares	Authorized	Issued and outstanding
Authorized 1,000,000 ordinary shares, par value HK$0.01 at January 1, 2004, December 31, 2004 and May 25, 2005	1,000,000	$1,280	
95,000 ordinary shares, par value HK$0.01, outstanding at January 1, 2004 and December 31, 2004	95,000		$122
Issuance of 45,000 ordinary shares on March 31, 2005	45,000		58
Balance, May 25, 2005	140,000		$180

5. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following at December 31, 2004 and May 25, 2005:

	2004	2005
Rent deposit	$ 12,613	$ 12,777
Other current assets	10,308	10,358
Total	$ 22,921	$ 23,135

Table of Contents

6. Accrued expenses and other payables

Accrued expenses and other payables consisted of the following at December 31, 2004 and May 25, 2005:

	2004	2005
Commissions payable	$ 15,237	$ 43,916
Accrued printing cost	—	21,736
Accrued salary and welfare	33,852	118,495
Accrued office expenses	43,632	—
Traveling expenses	21,872	5,795
Other taxes payable	24,049	36,029
Other	89,210	87,079
Total	$ 227,852	$ 313,050

7. Provision for income taxes

EconWorld Media, and its subsidiaries incorporated in Hong Kong are subjected to Hong Kong Profits Tax calculated at a rate of 17.5%.

EconWorld Media's subsidiaries incorporated in the PRC are governed by either the PRC Enterprises Income Tax or the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws ("Income Tax Laws"). Pursuant to the PRC Income Tax Laws, the foreign investment enterprises are subject to income tax at statutory rate of 33% (30% of the state income tax plus 3% local income tax) on PRC taxable income.

The provision (benefit) for income taxes consisted of the following for the year ended December 31, 2004 and period ended May 25, 2005:

	2004	2005
Current income taxes	$ 20,795	$ 18,058
Deferred income taxes	(16,234)	(21,919)
Provision for income taxes (benefit)	$ 4,561	$ (3,861)

The principal components of the deferred income tax assets are as follows at December 31, 2004 and May 25, 2005:

	2004	2005
Deferred tax assets:		
Net operating losses	$ 319,789	$ 479,245
Organization costs	8,627	7,991
Total	328,416	487,236
Less: valuation allowance	(312,182)	(448,743)
Net deferred tax assets	$ 16,234	$ 38,493

Table of Contents

There were no significant deferred tax liabilities as of December 31, 2004 and May 25, 2005.

As management does not believe that it is more likely than not that all of the deferred tax assets will be realized, a valuation allowance has been established as of December 31, 2004 and May 25, 2005. The increase in valuation allowance from December 31, 2004 to May 25, 2005 represents additional net operating losses incurred during 2005.

The Company has operating loss carry forwards of $1,381,012 and $2,153,910 for the year ended December 31, 2004 and the period ended May 25, 2005, respectively. Net operating loss generated in the PRC will expire on various dates through 2010 and net operating loss generated in Hong Kong may be carried forward indefinitely.

Reconciliation between the provision for income tax computed by applying the PRC enterprise income tax rate of 33% to income before income taxes and the actual provision for income taxes is as follows:

		2004		2005
Net loss before provision for income taxes (benefit)	$	(1,243,007)	$	(888,329)
PRC statutory tax rate		33%		33%
Income tax at statutory tax rate		(410,192)		(293,149)
Expenses not deductible for tax purposes:				
Entertainment		3,477		3,312
Salaries and employee benefits		13,994		32,045
Other		5,419		8,559
Effect of income tax rate differences in other jurisdictions		108,820		112,188
Changes in valuation allowances		260,877		136,561
Foreign income taxes		20,795		2,970
Other		1,371		(6,347)
Provision for income taxes (benefit)	$	4,561	$	(3,861)

8. Related party transactions

Amounts due from (to) related parties are as follows at December 31, 2004 and May 25, 2005:

		2004		2005
Due from related parties:				
Due from affiliates	$	6,004	$	8,774
Due from shareholder		2,821		6,102
Total	$	8,825	$	14,876
Due to related parties:				
Due to shareholders	$	285,188	$	433,830
Due to directors		653,240		947,818
Total	$	938,428	$	1,381,648

Table of Contents

Amounts due to related party at December 31, 2004 and May 25, 2005 represented amounts borrowed from shareholders and directors. Amounts borrowed are non−interest bearing and are payable on demand. There were no other related party transactions and balances for the year ended December 31, 2004 and the period ended May 25, 2005.

9. Commitments

The Company has operating lease agreements principally for its office spaces in the PRC and Hong Kong. These leases expire in December 2005, and are renewable upon negotiation. The Company had not yet entered into a new lease at May 25, 2005. Rent expenses were $79,030 and $31,890 for the year ended December 31, 2004 and the period ended May 25, 2005, respectively.

10. Segment information

The Company operates in one business segment in book and magazine publications. Substantially all of the Company's identifiable assets are located in the PRC. During the year ended December 31, 2004 and the period ended May 25, 2005, the Company's chief decision maker was the Chief Executive Officer of the Company. To date, assets and revenues from Hong Kong have not been significant.

11. Employee benefit plans

Employees of the Company and its subsidiaries located in Hong Kong are covered by the Mandatory Provident Fund Scheme ("MPF Scheme") established on December 1, 2000 under the Mandatory Provident Fund Scheme Ordinance of Hong Kong. The calculation of contributions for these eligible employees is based on 5% of the applicable payroll costs, and contributions are matched by the employees. The amounts paid by the Company to the MPF Scheme were $9,853 and $2,230 for the year ended December 31, 2004 and the period ended May 25, 2005, respectively.

Employees of the Company and its subsidiaries located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The amounts to be contributed are determined based on 20% of the applicable payroll costs. Expenses paid by the Company to these defined contribution schemes were $5,303 and $2,530 for the year ended December 31, 2004 and the period ended May 25, 2005, respectively.

In addition, the Company is required by law to contribute approximately 1.2% to 10% of applicable salaries for medical insurance benefits, housing funds, unemployment, and other statutory benefits. The PRC government is directly responsible for the payment of the benefits to these employees. The amounts contributed for medical insurance benefits were $2,818 and $1,379 for the year ended December 31, 2004 and the period ended May 25, 2005, respectively. The amounts contributed for housing funds were $1,600 and $761 for the year ended December 31, 2004 and the period ended May 25, 2005, respectively. The amounts contributed to other benefits were not material for the year ended December 31, 2004 and the period ended May 25, 2005.

Table of Contents

12. Statutory reserves

As stipulated by the relevant laws and regulations in the PRC, the Company is required to maintain non–distributable reserves which include a statutory surplus reserve and a statutory welfare reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of the profit after taxes as determined under PRC GAAP. The statutory welfare reserve allocations are determined annually at the discretion of the Company's board of directors. Once appropriated, these amounts are not available for future distribution to owners or shareholders. The statutory surplus reserve may be applied against prior year losses, if any, and may be applied to the purchase of capital assets upon the board of directors' approval. There were no amounts appropriated to any of the statutory reserves as the Company had incurred PRC statutory losses during the year ended December 31, 2004 and the period ended May 25, 2005.

Table of Contents

Report of independent registered public accounting firm

To the Board of Directors and Owners of
Beijing Century Media Culture Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Beijing Century Media Culture Co., Ltd., and its subsidiaries (the "Company") as of December 31, 2004 and September 8, 2005, and the related consolidated statements of operations, owners' equity and comprehensive income, and cash flows for the period from June 25, 2004 (date of establishment) to December 31, 2004 and period from January 1, 2005 to September 8, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and September 8, 2005 and the consolidated results of its operations and its cash flows for the period from June 25, 2004 (date of establishment) to December 2004 and period from January 1, 2005 to September 8, 2005 in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Hong Kong
September 22, 2006

Table of Contents

Beijing Century Media Culture Co., Ltd.
Consolidated balance sheets

(In U.S. dollars)		December 31, 2004		September 8, 2005
Assets				
Current assets:				
Cash	$	494	$	417,849
Accounts receivable		221,577		325,802
Prepaid expenses and other current assets		79,508		129,006
Deferred tax assets		—		40,203
Total current assets		301,579		912,860
Capitalized content production costs, net		1,275,710		1,178,783
Property and equipment, net		34,901		40,201
Goodwill		—		129,469
Total	$	1,612,190	$	2,261,313
Liabilities and owners' equity				
Current liabilities:				
Accounts payable	$	—	$	95,336
Accrued expenses and other payables		1,241,006		1,216,640
Amounts due to related parties		—		246,944
Income taxes payable		—		123,316
Total liabilities		1,241,006		1,682,236
Commitments (Note 11)				
Minority interest		—		32,016
Registered capital		120,948		120,948
Retained earnings		250,236		418,368
Accumulated other comprehensive income		—		7,745
Total owners' equity		371,184		547,061
Total	$	1,612,190	$	2,261,313

See notes to consolidated financial statements

Table of Contents

Beijing Century Media Culture Co., Ltd.
Consolidated statements of operations

(In U.S. dollars)		For the period from June 25, 2004 (Date of establishment) to December 31, 2004		For the period ended September 8, 2005
Content production revenue, net	$	685,454	$	650,776
Costs and operating expenses:				
Cost of content production		331,959		260,964
Selling		22,170		66,581
General and administrative		83,221		63,814
Total costs and operating expenses		437,350		391,359
Income from operations		248,104		259,417
Other income		2,132		—
Income before provision for income taxes		250,236		259,417
Provision for income taxes		—		91,285
Net income	$	250,236	$	168,132

See notes to consolidated financial statements

Table of Contents

Beijing Century Media Culture Co., Ltd.
Statements of owners' equity and comprehensive income

For the period from June 25, 2004 (Date of establishment) to December 31, 2004 and period ended September 8, 2005

(In U.S. dollars)	Registered capital	Retained earnings	Accumulated other comprehensive income	Total	Comprehensive income
Capital contribution	$ 120,948	$ —	$ —	$ 120,948	
Net income	—	250,236	—	250,236	$ 250,236
Balance, December 31, 2004	120,948	250,236	—	371,184	
Foreign currency translation	—	—	7,745	7,745	$ 7,745
Net income	—	168,132	—	168,132	168,132
Balance, September 8, 2005	$ 120,948	$ 418,368	$ 7,745	$ 547,061	$ 175,877

See notes to consolidated financial statements

Table of Contents

Beijing Century Media Culture Co., Ltd.
Consolidated statements of cash flows

(In U.S. dollars)	For the period from June 25, 2004 (Date of establishment) to December 31, 2004	For the period ended September 8, 2005
Cash flows from operating activities:		
Net income	$ 250,236	$ 168,132
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	332,144	282,077
Changes in operating assets and liabilities (net of effects of acquisitions):		
Accounts receivable	(221,577)	49,256
Capitalized content production costs	(1,607,669)	(137,416)
Prepaid expenses and other current assets	(79,508)	75,467
Accrued expenses and other payables	1,241,006	(376,824)
Income taxes payable	—	91,285
Cash (used in) provided by operating activities	(85,368)	151,977
Cash flows from investing activities:		
Purchases of property and equipment	(35,086)	(1,367)
Cash received in excess of cost from acquisition of subsidiaries	—	266,735
Cash (used in) provided by investing activities	(35,086)	265,368
Cash provided by financing activities— capital contributions	120,948	—
Effect of exchange rate changes	—	10
Net increase in cash	494	417,355
Cash, beginning of the period	—	494
Cash, end of the period	$ 494	$ 417,849

See notes to consolidated financial statements

Table of Contents

Beijing Century Media Culture Co., Ltd.
Notes to consolidated financial statements

For the period from June 25, 2004 (Date of establishment) to December 31, 2004 and period ended September 8, 2005
(In U.S. dollars)

1. Organization and principal activities

Beijing Century Media Culture Co., Ltd. ("Beijing Century Media") was established on June 25, 2004 in the People's Republic of China ("PRC") under the laws of the PRC. Beijing Century Media and its subsidiaries (the "Company") are principally engaged in the production of television programs, animations, and visual effects and post–production for television commercials and also offer broadcast design services. On September 9, 2005, through a number of nomination and equity pledge agreements between Xinhua Finance Limited ("XFL", a Tokyo Stock Exchange listed company) and the equity owners of Beijing Century Media, XFL became the primary beneficiary of Beijing Century Media.
The following is a description of Beijing Century Media's subsidiaries and their businesses:

- Beijing Golden Ways Culture Development Co., Ltd. ("Golden Ways") was established in the PRC on July 31, 2001 for a term of 20 years with an initial registered capital of $37,042 (RMB 300,000). On August 30, 2005, Beijing Century Media acquired 90% of Golden Ways ordinary shares for $33,337 (RMB 270,000) in cash. Golden Ways is engaged in the production of three–dimensional animation, the production of television commercials, and the provision of broadcast design services for television stations.

- Beijing Workshop Communications Co., Limited ("Beijing Workshop") was established in the PRC on July 21, 2004 for a term of 30 years with an initial registered capital of $123,472 (RMB 1,000,000). On August 30, 2005, Beijing Century Media acquired 90% of Beijing Workshop's ordinary shares for $111,125 (RMB 900,000) in cash. Beijing Workshop provides broadcast design services to television station customers, and provides two– and three–dimensional designs and motion graphics.

2. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of consolidation

The consolidated financial statements include the financial statements of Beijing Century Media and its majority–owned subsidiaries. All significant intercompany transactions and balances are eliminated during consolidation.

Table of Contents

(c) Use of estimates
The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements include allowance for doubtful accounts, valuation of deferred tax assets, useful lives of property and equipment, impairment of long–lived assets, and remaining ultimate revenues for the purpose of recognizing content production costs.

(d) Revenue recognition
Content production revenues include revenues from television program production, animations, visual effects post–production for television commercials and broadcast design. Episodic television series are produced or acquired for distribution to the television market. Revenues are recognized when the master tape of the program is available for first airing under the terms of the related licensing agreement. Broadcast design mainly includes design of television channel logos, production of trailers for advertising the television channels, and image consulting and branding for the television channels. Revenue for the production of the logos and trailers are recognized upon delivery of the products and customer acceptance. Revenue for image and branding consultations are recognized as the services are provided. Revenue is recorded net of applicable business taxes which totaled $22,354 and $20,196 for the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period ended September 8, 2005, respectively.

The Company extends credit based upon an evaluation of the customers' financial condition and collateral is not required from such customers. Allowances for estimated credit losses, rate adjustments, and discounts are generally established based on historical experience.

In the normal course of business, the Company acts as an intermediary or agent in placing advertising transactions with TV stations with third parties. Such transactions are recorded at either gross or net basis depending on whether the Company is acting as the principal or as an agent in the transaction. The Company is considered as the principal in transactions where it purchase blocks of advertising time and attempts to sell the time to advertisers and it has substantial risks and rewards of ownership, accordingly, records revenue on a gross basis. For those transactions in which the Company find advertising space for advertisers and it does not have substantial risks and rewards of ownership, the Company is considered an agent in the transaction and, accordingly, records revenue on a net basis.

(e) Capitalized content production costs
Capitalized content production costs consists of direct production costs, production overhead, development, and pre–production costs, and are stated at cost, less accumulated amortization and impairment. Capitalized content production costs recognized as cost of revenues for a given program are determined using the forecast method. Under this method, the amount of capitalized costs recognized as expense is based on the proportion of a program's revenues recognized for such period to the program's estimated remaining ultimate revenues. Similarly, the recognition of expenses for participations and residuals are recognized based on the proportion of the programs' revenues recognized for such period to the programs' estimated

Table of Contents

remaining ultimate revenues. These estimates are revised periodically and losses, if any, are provided in full.

(f) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight–line basis over the following estimated useful lives:

Leasehold improvements	Lesser of 5 years or lease term
Furniture, fixtures and equipment	5 years

(g) Goodwill

Goodwill includes acquired workforce and is not amortized but tested for impairment annually on December 31 and whenever events or circumstances make it more likely than not that impairment may have occurred. Goodwill impairment is tested using a two–step approach. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test measures the amount of the impairment loss, if any, by comparing the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. The implied fair value of goodwill is calculated in the same manner that goodwill is calculated in a business combination, whereby the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit, with the excess purchase price over the amounts assigned to assets and liabilities. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being a discounted cash flow.

(h) Impairment of long–lived assets

The Company evaluates its long–lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss as the excess of carrying amounts over fair value of the assets. There were no impairment losses reported in the period from June 25, 2004 (date of establishment) to December 31, 2004 or the period ended September 8, 2005.

(i) Income taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of

Table of Contents

management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non–current based on their characteristics.

(j) Foreign currency translation

The functional currency of the Company is Renminbi ("RMB"). Transactions denominated in other currencies are translated into RMB at the average rates of exchange prevailing during each period. Monetary assets and liabilities denominated in other currencies are translated into RMB at rates of exchange in effect on the balance sheet dates. Nonmonetary assets and liabilities are remeasured into RMB at historical exchange rates.

The Company uses the United States dollar as its reporting currency. Accordingly, assets and liabilities are translated using exchange rates in effect at each balance sheet date and average exchange rates for the period are used for revenue and expense transactions.

Currency transaction gains and losses are recorded in the consolidated statements of operations. Translation adjustments are recorded in accumulated other comprehensive gain, a component of owners' equity. Both transaction gains (losses) and translation adjustments are not material for the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period ended September 8, 2005.

(k) Concentration of credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and accounts receivable.

The following customers contributed 10% or more of the Company's revenues during the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period ended September 8, 2005:

	2004	2005
Customer A	$ 158,411	$ *
Customer B	122,027	*
Customer C	117,030	*
Customer D	105,982	*
Customer E	98,492	*
Customer F	83,512	*
Customer G	*	77,609
Customer H	*	71,683

* *Represents less than 10% of revenue.*

One customer accounted for 74% and 28% of the Company's accounts receivable balances at December 31, 2004 and September 8, 2005, respectively. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. No allowance for doubtful accounts was considered necessary at December 31, 2004 and September 8, 2004 as accounts receivable balances were expected to be collectible. Historical bad debts have not been material.

Table of Contents

All of the Company's revenue for the period from June 25, 2004 (date of establishment) to December 31, 2004 and period ended September 8, 2005 was generated from the PRC.

(l) Fair value of financial instruments

The carrying amounts of accounts receivable, accounts payable, accrued expenses and other payable, and amounts due to related parties approximated their fair values due to the short-term maturity of these instruments.

(m) Comprehensive income

Comprehensive income is reported on the accompanying consolidated statement of owners' equity and consisted of net income and foreign currency translation gains and losses

3. Acquisitions

(a) Beijing Workshop

On August 30, 2005, the Company acquired 90% of the assets and liabilities of Beijing Workshop for an initial cash consideration of $111,125 (RMB 900,000). The primary assets acquired were facilities, equipment, and assembled workforce, which would enhance the Company's production capabilities. The Company has consolidated the operating results of Beijing Workshop effective on the date of acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	Fair value	Adjustments	Adjusted
Assets acquired:			
Cash	$ 257,718		$ 257,718
Accounts receivable	140,514		140,514
Prepaid expenses and other current assets	111,484		111,484
Property and equipment	186,130	$ (177,021)	9,109
Total assets acquired	695,846	(177,021)	518,825
Liabilities assumed:			
Accounts payable	80,285		80,285
Accrued expenses and other payables	146,644		146,644
Amount due to a related party	123,472		123,472
Income taxes payable	25,283		25,283
Total liabilities assumed	375,684		375,684
Minority interest	32,016		32,016
Total net assets	288,146	(177,021)	111,125
Total consideration	111,125		111,125
Negative goodwill	$ 177,021	$ (177,021)	$ —

Table of Contents

(b) Golden Ways
On August 30, 2005, the Company acquired 90% of the assets and liabilities of Golden Ways for an initial cash consideration of $33,337 (RMB 270,000). The primary assets acquired were facilities, equipment, and assembled workforce, which would enhance the Company's production capabilities. The Company has consolidated the operating results of Golden Ways effective on the date of acquisition.
The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:		
Cash	$	153,479
Accounts receivable		8,344
Prepaid expenses and other current assets		11,820
Property and equipment		15,211
Deferred tax assets		40,203
Total assets acquired		229,057
Liabilities assumed:		
Accounts payable		15,051
Accrued expenses and other payable		179,918
Amount due to a related party		123,472
Income tax payable		6,748
Total liabilities assumed		325,189
Total net liabilities		(96,132)
Total consideration		33,337
Goodwill	$	129,469

The following pro forma information summarizes the effect of the acquisition of Beijing Workshop and Golden Ways, if the acquisitions had occurred as of June 25, 2004 and January 1, 2005. This pro forma information is presented for informational purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on June 25, 2004 and January 1, 2005, nor is it necessarily indicative of future results of operations of the consolidated enterprises for the periods ended December 31, 2004 and September 8, 2005.

		December 31, 2004		**September 8, 2005**
Pro forma revenues	$	1,258,074	$	1,937,454
Pro forma net income from operations		334,891		271,451
Pro forma net income		319,249		220,857

Table of Contents

4. Property and equipment, net

Property and equipment, net consisted of the following at December 31, 2004 and September 8, 2005:

	2004	2005
Leasehold improvements	$ 17,892	$ —
Furniture, fixtures and equipment	17,194	43,238
Total	35,086	43,238
Less: accumulated depreciation and amortization	185	3,037
Property and equipment, net	$ 34,901	$ 40,201

During 2005, the Company moved its office to a new location and abandoned fully depreciated leasehold improvements at the old location. No gains or losses were recorded on the disposal. Depreciation and amortization expenses were $185 and $21,113 for the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period ended September 8, 2005, respectively.

5. Capital structure

The Company was established on June 25, 2004 with both registered and contributed capital of $120,948. On September 9, 2005, under a number of nomination and equity pledge agreements, all of the beneficial interest of the Company was assumed by Shanghai Huacai Investment Advisory Company Limited, a wholly–owned subsidiary of XFL for an initial consideration of $3,000,000 in the form of XFL's common shares and contingent consideration to be determined based on the Company's future earnings.

6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following at December 31, 2004 and September 8, 2005:

	2004	2005
Advance to employees	$ 41,228	$ 84,559
Rent deposit	21,771	—
Other	16,509	44,447
Total	$ 79,508	$ 129,006

Table of Contents

7. Capitalized content production costs, net

Capitalized content production costs consisted of the following at December 31, 2004 and September 8, 2005:

		2004		2005
Television programs:				
Released	$	843,301	$	1,778,632
Completed but not released		448,302		—
In production		316,066		—
Total		1,607,669		1,778,632
Less: accumulated depreciation and amortization		331,959		599,849
Capitalized content production costs, net	$	1,275,710	$	1,178,783

Amortization expenses were $331,959 and $260,964 for the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period ended September 8, 2005, respectively.

8. Accrued expenses and other payables

Accrued expenses and other payables consisted of the following at December 31, 2004 and September 8, 2005:

		2004		2005
Accrued television program production costs	$	917,794	$	425,822
Advances from third parties		180,697		242,258
Advances from employees		133,888		478,981
Accrued salary and welfare		—		13,815
Other taxes payable		8,627		11,047
Other		—		44,717
Total	$	1,241,006	$	1,216,640

9. Provision for income taxes

The Company is subject to PRC Enterprises Income Tax on the taxable income in accordance with the relevant PRC income tax laws. Pursuant to the PRC Income Tax Laws, the Company is subject to income tax at a statutory rate of 33% (30% of the state income tax plus 3% local income tax) on PRC taxable income. Beijing Workshop qualified as a "cultural media enterprise" and had been granted by the relevant taxing authorities a two-year exemption from PRC income taxes through December 31, 2006. Beijing Century Media qualified as a "cultural education enterprise" and had been granted an exemption from PRC income taxes by the relevant taxing authorities for the year 2004. Provision for income taxes consisted of $91,285 in PRC current income taxes during the period ended September 8, 2005.

Deferred tax assets consisted of net operating losses totaling $40,203. There were no deferred tax liabilities as of September 8, 2005. The Company did not have deferred tax assets or

Table of Contents

liabilities as of December 31, 2004. The Company has operating loss carry forwards of $121,826 as of September 8, 2005. The net operating loss carry forwards expire in year 2010.

Reconciliation between provision for income taxes computed by applying the PRC enterprise income rate of 33% to income before provision for income taxes was as follows for the year ended December 31, 2004 and the period ended September 8, 2005:

	2004	2005
Income before provision for income taxes	$ 250,236	$ 259,417
PRC statutory tax rate	33%	33%
Income taxes at statutory tax rate	82,578	85,608
Effect of expenses not deductible for tax purposes:		
Entertainment	2,132	1,470
Salaries and employee benefits	6,398	4,207
Tax exemption	(91,108)	—
Provision for income taxes	$ —	$ 91,285

PRC Enterprises income taxes that would have been payable without the tax exemption was $91,108 for the year ended December 31, 2004.

10. Related party transaction

Amounts due to a related party consisted of advances from an affiliate totaling $246,944 at September 8, 2005. There were no amounts due from (to) related parties at December 31, 2004. The amount advanced to the affiliate is non−interest bearing and is due on demand.

11. Commitments

(a) Purchase of program rights

The Company entered into an agreement for the purchase of program rights for a total of $802,568. Unexpended balance totaled $740,832 at December 31, 2005.

(b) Operating lease

During 2005, the Company moved into a new office space under a new operating lease agreement which does not require a rent deposit. The lease will expire in July 2007 and is renewable upon negotiation. Rent expenses were $27,136 and $617 for the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period ended September 8, 2005, respectively.

Future minimum lease payments under non−cancellable operating lease agreements are as follows at September 8, 2005:

2006	$ 42,845
2007	1,358
Total	$ 44,203

Table of Contents

12. Segment information

The Company operates in one business segment in the production and distribution of television programs, television branding, video clips, and animation design. All of the Company's identifiable assets are located in PRC. During the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period ended September 8, 2005, the Company's chief decision maker was its General Manager.

13. Employee benefit plans

Employees of the Company located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The amounts to be contributed are determined based on 20% of the applicable payroll costs expenses paid by the Company to these defined contribution schemes were $4,312 and $3,604 for the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period ended September 8, 2005, respectively.

In addition, the Company is required by law to contribute approximately 1.2% to 10% of applicable salaries for medical insurance benefits, housing funds, unemployment, and other statutory benefits. The PRC government is directly responsible for the payment of the benefits to these employees. The amounts contributed for medical insurance benefits were $2,212 and $2,344 for the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period ended September 8, 2005, respectively. The amounts contributed for housing funds were $1,069 and $2,029 for the period from June 25, 2004 (date of establishment) to December 31, 2004 and the period ended September 8, 2005, respectively. The amounts contributed for other benefits were not material during 2004 and 2005.

14. Statutory reserves

As stipulated by the relevant laws and regulations in the PRC, the Company is required to maintain non–distributable reserves which include a statutory surplus reserve and a statutory welfare reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of the profit after taxes as determined under PRC GAAP. The statutory welfare reserve allocations are determined annually at the discretion of the Company's board of directors. Once appropriated, these amounts are not available for future distribution to owners or shareholders. The statutory surplus reserve may be applied against prior year losses, if any, and may be applied to the purchase of capital assets upon the board of directors' approval. Since the date of establishment, no appropriation was made to any of the reserves.

Table of Contents

Report of independent registered public accounting firm

To the Board of Directors and Shareholder of
Xinhua Finance Advertising Limited

We have audited the accompanying consolidated balance sheet of Xinhua Finance Advertising Limited and its subsidiaries (the "Company") as of December 31, 2005, and the related consolidated statements of operations, shareholder's deficiency and cash flows for the period from December 21, 2005 (date Xinhua Finance Advertising Limited acquired Active Advertising Agency Limited, the predecessor to Xinhua Finance Advertising Limited) to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and the consolidated results of its operations and its cash flows for the period from December 21, 2005 (date Xinhua Finance Advertising Limited acquired Active Advertising Agency Limited, the predecessor to Xinhua Finance Advertising Limited) to December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Hong Kong
September 22, 2006

Table of Contents

Xinhua Finance Advertising Limited
Consolidated balance sheet

(In U.S. dollars)		December 31, 2005
Assets		
Current assets:		
Cash	$	1,181,173
Restricted cash		115,385
Accounts receivable		3,419,313
Prepaid advertising program space and airtime		1,082,863
Prepaid expenses and other current assets		72,743
Amounts due from related parties		1,104,072
Total current assets		6,975,549
Rent deposit		15,657
Deferred tax asset		147,211
Property and equipment, net		829,515
Total	$	7,967,932
Liabilities and shareholder's deficiency		
Current liabilities:		
Accounts payable	$	1,759,712
Accrued expenses and other payables		671,360
Deferred revenue		41,195
Amounts due to related parties		4,600,491
Income taxes payable		264,956
Total liabilities		7,337,714
Commitments (Note 11)		
Minority interest		636,681
Ordinary shares, par value $1; authorized 50,000 shares; issued and outstanding, 1,000 shares		1,000
Ordinary shares subscription receivable		(1,000)
Accumulated deficit		(6,463)
Total shareholder's deficiency		(6,463)
Total	$	7,967,932

See notes to consolidated financial statements

Table of Contents

Xinhua Finance Advertising Limited
Consolidated statement of operations

For the period from December 21, 2005
(Date Xinhua Finance Advertising Limited acquired Active Advertising Agency Limited, the predecessor to Xinhua Finance Advertising Limited)
to December 31, 2005

(In U.S. dollars)

Advertising revenue, net	$	384,804
Costs and Expenses		
Costs of advertising		323,776
Selling, general and administrative expenses		68,305
Total costs and expenses		392,081
Loss from operations		(7,277)
Interest income		1,013
Loss before income tax		(6,264)
Provision for income tax		199
Net loss		(6,463)

See notes to consolidated financial statements

Table of Contents

Xinhua Finance Advertising Limited
Consolidated statement of shareholder's deficiency

For the period from December 21, 2005
(Date Xinhua Finance Advertising Limited acquired Active Advertising Agency Limited, the predecessor to Xinhua Finance Advertising Limited)
to December 31, 2005

(In U.S. dollars)	Ordinary shares Number of shares	Ordinary shares Par value	Ordinary shares subscription receivable	Accumulated deficit	Total
Contributed capital	1,000	$ 1,000	$ (1,000)	$ —	$ —
Net loss	—	—	—	(6,463)	(6,463)
Balance, December 31, 2005	1,000	$ 1,000	$ (1,000)	$ (6,463)	$ (6,463)

See notes to consolidated financial statements

Table of Contents

Xinhua Finance Advertising Limited
Consolidated statement of cash flows

For the period from December 21, 2005
(Date of Xinhua Finance Advertising Limited acquired Active Advertising Agency Limited, the predecessor to Xinhua Finance Advertising Limited)
to December 31, 2005

(In U.S. dollars)

Cash flows from operating activities:		
Net loss	$	(6,463)
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred tax		1,656
Change in operating assets and liabilities (net of effects of acquisitions):		
Accounts receivable		302,867
Prepaid expenses and other current assets		19,909
Accounts payable		(478,748)
Accrued expenses and other payables		4,543
Deferred revenue		16,007
Cash used in operating activities		(140,229)
Cash flows from investing activities— cash received from acquisition of subsidiaries, net of cash paid		1,321,402
Net increase in cash		1,181,173
Cash, beginning of the period		—
Cash, end of the period	$	1,181,173
Supplemental schedule of non−cash investing activities:		
Amounts due to related parties for acquisition of subsidiary	$	1,815,349

See notes to consolidated financial statements

Table of Contents

Xinhua Finance Advertising Limited
Notes to financial statements

For the period from December 21, 2005
(Date Xinhua Finance Advertising Limited acquired Active Advertising Agency Limited,
the predecessor to Xinhua Finance Advertising Limited)
to December 31, 2005
(In U.S. dollars)

1. Organization and principal activities

Xinhua Finance Advertising Limited (formerly Ming Shing International Limited, "Ming Shing") was incorporated in the British Virgin Islands ("BVI") under the laws of the BVI on October 6, 2005 and is an investment holding company for its wholly– and majority–owned subsidiaries and variable interest entities ("VIEs"). On January 12, 2006, Ming Shing was acquired by Xinhua Finance Limited ("XFL") for an initial cash consideration of $29 million plus future contingent considerations to be determined based on net income in each of the years through 2007. XFL has agreed to provide continuous financial and operational support to the Company.

Ming Shing and its subsidiaries (collectively the "Company") provide advertising design, production and placement services for television, print media and outdoor billboards on university campuses to customers in the People's Republic of China ("PRC") and Hong Kong.

The following is a description of Ming Shing's subsidiaries and their businesses:

- Upper Will Enterprises Limited ("Upper Will") was incorporated in the BVI on November 10, 2005 and is an investment holding company for its wholly– and majority–owned subsidiaries and VIEs. Upper Will was acquired by Ming Shing on December 14, 2005 and is a wholly–owned subsidiary of Ming Shing effective from the acquisition date.

- Active Advertising Agency Limited ("Active Advertising Hong Kong") was incorporated in Hong Kong on February 17, 1997 and was acquired by Upper Will on December 21, 2005. Active Advertising Hong Kong places advertisements and provides advertising services to customers in Hong Kong. Active Advertising Hong Kong acts as an agent for newspaper companies and outdoor advertising companies selling advertising spaces to corporate advertisers. Active Advertising Hong Kong also provides design and production services to its customers. To date, revenue from design and production services has not been material.

- Active Advertising (Guangzhou) Co. Ltd. ("Active Guangzhou") was established in the PRC on June 1, 2005 as a wholly–owned subsidiary of Active Advertising Hong Kong. Active Guangzhou provides advertising placement services to customers in Guangzhou and customers referred by Active Advertising Hong Kong. Active Guangzhou acts as an agent for newspaper companies and outdoor advertising companies selling advertising space to corporate advertisers. Effective December 21, 2005, Active Guangzhou became the primary beneficiary of two variable interest entities ("VIEs") through a number of nomination and equity pledged agreements with the VIE's equity owners. A VIE is an entity in which equity investors generally do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. A VIE is consolidated by its primary beneficiary when it is determined that the primary beneficiary will absorb the majority of the VIE's expected losses

Table of Contents

and/or expected residual returns. Consistent with the provisions of FASB Interpretation No. 46, "*Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51*" (as revised, "FIN 46R"), these VIEs are included in the consolidated financial statements of Active Guangzhou.

The following is a summary and description of Active Guangzhou's consolidated VIEs and their subsidiaries:

- Shenzhen Active Trinity Advertising Co., Ltd. ("Shenzhen Trinity") was established in the PRC in December 2005 by two PRC citizens for a term of 10 years and provides advertising placement services to customers in Shenzhen and customers referred by Active Advertising Hong Kong. Through a number of nomination and equity pledged agreements dated December 21, 2005, Shenzhen Trinity is accounted for as a wholly-owned VIE of Active Guangzhou and is included in the consolidated financial statements of Active Guangzhou.

- Beijing Taide Advertising Co., Ltd. ("Beijing Taide") was established in the PRC on March 23, 2005 by two PRC citizens for a term of 20 years and provides design, production and placement of print advertisements to customers in Beijing. Through a number of nomination and equity pledged agreements dated December 21, 2005, Beijing Taide is accounted for as a wholly-owned VIE of Active Guangzhou and is included in the consolidated financial statements of Active Guangzhou.

- Shangtuo Zhiyang International Advertising (Beijing) Co. Ltd. ("Shangtuo Zhiyang") was established on December 9, 2005 by Beijing Taide and a PRC Citizen for a term of 30 years and is engaged in the design, production, and placement of advertising and provides advertising services. Shangtuo Zhiyang is the sole advertising placement agent for a newspaper published in the PRC, and also acts as an advertising placement agent for other internet websites, newspapers, and magazines. Shangtuo Zhiyang also provides other forms of promotion and consultancy services to property developers and other customers in real estate and property sales.

- Beijing Longmei Television and Broadcast Advertising Co., Ltd. ("Beijing Longmei") was established on September 24, 2002 by two PRC citizens for a term of 20 years and is engaged in the design, production and distribution of television advertisements, and acts as the agent for placement of advertisements during certain television shows broadcast by a major television station in Beijing. On December 12, 2005, Beijing Taide acquired 80% of the controlling interest in Beijing Longmei from its equity owners.

- Beijing Jinlong Runxin Advertising Co., Ltd. ("Beijing Jinlong Runxin") was established on August 5, 2004 by two PRC citizens for a term of 20 years and is engaged in the design, production and distribution of television advertisements. On December 9, 2005, Beijing Taide acquired 80% of the controlling interest in Beijing Jinlong Runxin from its equity owners.

- Shanghai Yuanxin Advertising Intermediary Co., Ltd. ("Shanghai Yuanxin") was established on December 23, 2003 by two PRC citizens for a term of 10 years and is engaged in the design, production and distribution of television advertisements, and acts as the agent for placement of advertisements during certain television shows broadcast by a major television station in Shanghai. Yuanxin also acts as the exclusive advertising agent for approximately 200 billboards on some university campuses in Shanghai. On December 16, 2005, Beijing Taide acquired 80% of the controlling interest in Shanghai Yuanxin from its equity owners.

Table of Contents

The following financial statement amounts and balances of Beijing Taide and Shenzhen Trinity for the period from December 21, 2005 to December 31, 2005 were included in the accompanying consolidated financial statements:

	Beijing Taide	Shenzhen Trinity	Total
Total assets	$ 5,229,959	$ 37,042	$ 5,267,001
Total liabilities	(1,403,309)	—	(1,403,309)
Total revenue	326,113	—	326,113
Total expenses	332,452	—	332,452
Net loss	(6,339)	—	(6,339)

2. Summary of principal accounting policies

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of consolidation

The consolidated financial statements include the assets, liabilities, revenues and expenses of Ming Shing, its wholly– and majority–owned subsidiaries, and their VIEs. All significant intercompany transactions and balances are eliminated during consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements include allowance for doubtful accounts, valuation of deferred tax assets, useful lives of property and equipment, and impairment of long–lived assets.

(d) Revenue recognition

Advertising revenue is recognized when advertisements are published, broadcasted, or placed on customers' websites net of provisions for estimated rebates, rate adjustments, and discounts. Revenues are recorded net of applicable business taxes totaling $3,940 for the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005.

Payments received in advance are deferred until earned and are reported as deferred revenue in the consolidated balance sheet.

Table of Contents

The Company extends credit based upon an evaluation of the customers' financial condition and collateral is not required from such customers. Allowances for estimated credit losses, rebates, rate adjustments and discounts are generally established based on historical experience.

In the normal course of business, the Company acts as or uses an intermediary or agent in executing transactions with third parties. Such transactions are recorded on a gross or net basis depending on whether the Company is acting as the principal or as an agent in the transaction. The Company serves as the principal in transactions in which it has substantial risks and rewards of ownership and, accordingly, records revenue on a gross basis. For those transactions in which the Company does not have substantial risks and rewards of ownership, the Company is considered an agent in the transaction and, accordingly, records revenue on a net basis.

(e) Restricted cash

Restricted cash are cash balances pledged for the use of banking facilities granted by banks.

(f) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on a straight–line basis over the following estimated useful lives:

Leasehold improvement	2 years
Billboards and lampposts	10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

(g) Impairment of long–lived assets

The Company evaluates its long–lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss as the excess of carrying amounts over fair value of the assets. There was no impairment losses recorded in the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005.

(h) Income taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the

relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non–current based on their characteristics.

(i) Foreign currency translation

The functional currency of Ming Shing subsidiaries are either Renminbi ("RMB") or Hong Kong dollar ("HKD"). Transactions denominated in other currencies are translated into RMB or HKD at the average rates of exchange prevailing during each period. Monetary assets and liabilities denominated in other currencies are translated into RMB or HKD at rates of exchange in effect on the balance sheet dates. Nonmonetary assets and liabilities are remeasured into RMB or HKD at historical exchange rates.

The Company uses the United States dollar as its reporting currency. Accordingly, assets and liabilities are translated using exchange rates in effect at each balance sheet date and average exchange rates for the period are used for revenue and expense transactions.

Currency transaction gains and losses are recorded in the consolidated statement of operations. Translation adjustments are recorded in accumulated other comprehensive income, a component of shareholder's equity. Both transaction gains and losses and translation adjustments are not material for the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005.

(j) Concentration of credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consisted primarily of cash, accounts receivable, and amounts due from (to) related parties.

One customer as of December 31, 2005 accounted for 38% of the Company's accounts receivable. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. As of December 31, 2005, no allowance for doubtful accounts was considered necessary as accounts receivable balances are expected to be collectible. Historical bad debts have not been significant.

(k) Fair value of financial instruments

The carrying amounts of accounts receivable, accounts payable, accrued expenses and other payable, amounts due from related parties, and amounts due to related parties approximated their fair values at December 31, 2005 due to the short–term maturity of these instruments.

(l) Comprehensive income

Comprehensive income is reported on the accompanying statements of shareholder's deficiency and consists of net loss for the period.

(m) Recent accounting pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *"Share–Based Payments"* or SFAS 123R. This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, *"Accounting for Stock Issued*

Table of Contents

to Employees" to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant–date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award— the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS 123R is effective for the fiscal year beginning January 1, 2006. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

In May 2005, the FASB issued SFAS No. 154, *"Accounting Changes and Error Corrections,"* which replaces Accounting Principles Board Opinions No. 20 *"Accounting Changes"* and SFAS No. 3, *"Reporting Accounting Changes in Interim Financial Statements— An Amendment of APB Opinion No. 28."* SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes— an interpretation of FASB Statement No. 109"* ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions in FASB Statement No. 109, *"Accounting for Income Taxes."* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 in the first quarter of 2007. The Company has not determined its impact, if any, of FIN 48 on its financial position, results of operations and cash flows

In September, 2006 the FASB issued FASB Statement No. 157, ("SFAS 157"), *"Fair Value Measurement."* SFAS 157 addresses standardizing the measurement of fair value for companies who are required to use a fair value measure of recognition for recognition or disclosure purposes. The FASB defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure date." SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, of SFAS 157 on its financial position, results of operations and cash flows.

3. Acquisitions

On December 21, 2005, the Company, through a wholly–owned subsidiary, acquired 100% of the ordinary shares of Active Advertising Hong Kong. Initial consideration for the acquisition consisted of $1,815,349 in cash payment. The primary asset acquired was television, print, and outdoor advertising agency operations in the PRC which would enhance the Company's geographic reach and operating scope. The Company has consolidated the operating results of Active Advertising Hong Kong effective on the date of the acquisition.

Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of nomination and equity pledge agreement. The Company is in the process of obtaining third–party valuations, from American Appraisal China Limited, of its property and equipment and certain identifiable intangible assets; thus, the allocation of the purchase price consideration disclosed herein is preliminary and subject to revision once the Company completes its valuation exercise.

		Fair value
Assets acquired:		
Cash	$	1,321,402
Restricted cash		115,385
Accounts receivable		3,722,180
Prepaid advertising program and airtime		1,082,863
Prepaid expenses and other current assets		92,652
Amounts due from related parties		1,104,072
Rent deposits		15,657
Deferred tax asset		147,211
Property and equipment, net		829,515
Total		8,430,937
Liabilities assumed:		
Accounts payable		2,238,460
Accrued expenses and other payables		666,817
Deferred revenue		25,188
Income taxes payable		264,956
Amount due to related parties		2,783,486
Total		5,978,907
Minority interest		636,681
Net assets acquired		1,815,349
Total considerations		1,815,349

The following pro forma information summarizes the effect of the acquisition, if the acquisitions had occurred as of January 1, 2005. This pro forma information is presented for information purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on January 1, 2005, nor is it necessarily indicative of future results of operations of the combined enterprises:

Pro forma revenues	$	12,415,767
Pro forma income from operations		354,817
Pro forma net income		460,277

4. Capital structure

On October 6, 2005, the Company issued 1,000 shares at a par value for $1. On January 12, 2006, 100% of the issued capital was acquired by XFL.

Table of Contents

5. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following at December 31, 2005:

Subsidy income receivable	$	45,803
Consulting income receivable		12,347
Rent deposit		4,367
Utility deposit		4,194
Prepaid expenses		1,235
Other		4,797
Total	$	72,743

Subsidy income receivable represented amounts receivable from local governments as an incentive to companies who help bring in and set up businesses in these jurisdictions. Subsidy income is determined based on a percentage of a new business' taxable income. The Company assisted a number of companies setting up businesses in these jurisdictions and is entitled to a portion of the subsidy income. The Company reported subsidy income as other income when earned. Costs incurred under these projects were reported as other expenses when incurred. Both subsidy income and the related costs were de minimis for the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005.

The Company provides consultancy services from time to time to its customers. Consultancy services are not considered to be the Company's core service nor are they the Company's current business strategy. As such, consultancy services are reported as other income as services are provided. Consultancy income for the period from December 21, 2005 (date of acquiring Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005 was de minimis. The related consultancy receivables are included in prepaid expenses and other current assets in the accompanying consolidated balance sheet.

6. Property and equipment, net

Property and equipment, net consisted of the following at December 31, 2005:

Leasehold improvements	$	8,971
Billboards and lamppost		554,778
Furniture, fixtures and equipment		213,285
Motor vehicles		132,315
Total		909,349
Less: accumulated depreciation		101,224
Total		808,125
Deposit paid for purchase of equipment		21,390
Property and equipment, net	$	829,515

Table of Contents

Depreciation expense was de minimus for the period from December 21, 2005 (Date Ming Shing acquired Active Advertising Agency Limited, the predecessor to Ming Shing) to December 31, 2005.

7. Capital structure

On October 6, 2005, the Company issued 1,000 shares at a par value of $1. On January 12, 2006, 100% of the issued capital was acquired by XFL.

8. Accrued expenses and other payables

Accrued expenses and other payables consisted of the following at December 31, 2005:

Accrued advertising placement	$	105,641
Accrued salary and welfare		80,582
Payable for acquisition of property and equipment		175,775
Other taxes payable		293,959
Other		15,403
Total	$	671,360

9. Provision for income taxes

Under the current BVI law, income from Ming Shing and Upper Will is not subject to taxation. Active Advertising Hong Kong is subject to Hong Kong Profits Tax calculated at a rate of 17.5% on Hong Kong taxable income. Current provision for Hong Kong income tax totaled $199 for the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005.

Beijing Taide and Beijing Jinlong Runxin qualified as "cultural media enterprises" and were granted a two-year income tax exemption by the relevant tax authorities effective through December 31, 2006.

All other subsidiaries of the Company were established in the PRC and are subject to PRC Enterprises Income Tax on the taxable income in accordance with the relevant PRC income tax laws at a statutory rate of 33% (30% state income tax plus 3% local income tax) on PRC taxable income. There was no provision for income taxes for the period from December 21, 2005 (date of acquiring Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005.

Deferred tax asset consisted of net operating losses totaling $147,211 at December 31, 2005.

There were no significant deferred tax liabilities as of December 31, 2005.

The Company has operating loss carry forwards of $446,239 for the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005. Net operating loss generated in the PRC will expire on various dates through 2010 and net operating loss generated in Hong Kong may be carried forward indefinitely.

Table of Contents

Reconciliation between the provision for income tax computed by applying the PRC enterprise income rate of 33% to income before income taxes and the actual provision for income taxes for the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005 is as follows:

		2005
Net loss before provision for income taxes	$	(6,264)
PRC statutory tax rate		33%
Income tax at statutory tax rate		(2,067)
Other		2,266
Provision for income taxes	$	199

10. Related party transactions

Amounts due from (to) related parties are as follows as of December 31, 2005:

Due from related parties:		
Due from directors of subsidiaries	$	324,336
Due from affiliate		55,573
Due from former shareholders of subsidiaries		724,163
Total	$	1,104,072
Due to related parties:		
Due to directors of subsidiaries		363,056
Due to minority shareholders		2,286,511
Due to former shareholders of subsidiaries		1,950,924
Total	$	4,600,491

All amounts due from related parties are non−interest bearing and are collectible on demand. Amounts due from affiliate represented advances to an entity affiliated with one of the Company's directors. Amounts due from related parties are expected to be collectible therefore no allowance for uncollectible amounts was considered necessary at December 31, 2005. Amounts due to minority shareholders and former shareholders represented considerations paid by these individuals in business combinations and are refundable by the Company. All amounts advanced or borrowed are non−interest bearing and are due on demand. Amounts due from former shareholders of subsidiaries were collected in full during 2006.

11. Commitments

(a) Capital expenditure

The Company has entered into agreements during the period ended December 31, 2005 to purchase equipment for a total of $59,958. Unexpended balance at December 31, 2005 was $38,568.

Table of Contents

(b) Operating leases

The Company has operating lease agreements principally for its office spaces in the PRC and Hong Kong. Rent expenses were de minimus for the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005. These leases expire in 2007 and are renewable upon negotiation.

Future minimum lease payments under non–cancellable operating lease agreements are as follows:

2006	$	121,517
2007		57,891
Total	$	179,408

(c) Other

The Company has a number of agreements to purchase advertising airtime from television stations. As of December 31, 2005, future minimum purchase commitments under the agreements totaled approximately $5,963,000.

12. Segment information

The Company operates in one business segment providing advertising placement services. The Company's revenue are generated from advertising revenue and substantially all the Company's identifiable assets are primarily located in the PRC. During the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005, the Company's chief decision maker was its General Manager.

13. Employee benefit plans

Employees of the Company located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The amounts to be contributed are determined based on 20% of the applicable payroll costs. Expenses paid by the Company to these defined contribution schemes were immaterial for the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005.

In addition, the Company is required by law to contribute approximately 1.2% to 10% of applicable salaries for medical insurance benefits, housing funds, unemployment, and other statutory benefits. The PRC government is directly responsible for the payment of the benefits to these employees. The amounts contributed for medical insurance, housing funds, and other benefits were not material for the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005.

14. Statutory reserves

As stipulated by the relevant laws and regulations in the PRC, the Company is required to maintain non–distributable reserves which include a statutory surplus reserve and a statutory welfare reserve. Appropriations to the statutory surplus reserve are required to be made at not

Table of Contents

less than 10% of the profit after taxes as determined under PRC GAAP. The statutory welfare reserve allocations are determined annually at the discretion of the Company's board of directors. Once appropriated, these amounts are not available for future distribution to owners or shareholders. The statutory surplus reserve may be applied against prior year losses, if any, and may be applied to the purchase of capital assets upon the board of directors' approval. Amounts contributed to the statutory surplus reserve and the statutory welfare reserve were not material during the period from December 21, 2005 (date Ming Shing acquired Active Advertising Hong Kong, the predecessor to Ming Shing) to December 31, 2005.

15. Subsequent events

On June 20, 2006, Beijing Taide made a capital contribution of $3.5 million (RMB28 million) to acquire 96.55% of the registered capital of Beijing Century Media Culture Co., Ltd., which increased its registered capital from $123,000 (RMB1 million) to $3.6 million (RMB29 million).

Table of Contents

Report of independent registered public accounting firm

To the Board of Directors and Shareholder of
Active Advertising Agency Limited:

We have audited the accompanying consolidated balance sheets of Active Advertising Agency Limited and its subsidiaries (the "Company", the predecessor to Xinhua Finance Advertising Limited) as of December 31, 2004 and December 21, 2005, and the related consolidated statements of operations, shareholder's equity and comprehensive income, and cash flows for the year ended December 31, 2004 and period from January 1, 2005 to December 21, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and December 21, 2005 and the consolidated results of its operations and its cash flows for the year ended December 31, 2004 and the period from January 1, 2005 to December 21, 2005 in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Hong Kong
September 22, 2006

Table of Contents

Active Advertising Agency Limited
(The predecessor to Xinhua Finance Advertising Limited)
Consolidated balance sheets

(In U.S. dollars)		December 31, 2004		December 21, 2005
Assets				
Current assets:				
Cash	$	86,403	$	1,321,402
Restricted cash		115,385		115,385
Accounts receivable		1,212,297		3,722,180
Prepaid advertising program space and airtime		33,797		1,082,863
Prepaid expenses and other current assets		4,194		92,652
Amounts due from related parties		254,220		1,104,072
Total current assets		1,706,296		7,438,554
Rent deposit		—		15,657
Deferred tax asset		—		147,211
Property and equipment, net		24,313		829,515
Total	$	1,730,609	$	8,430,937
Liabilities and shareholder's equity				
Current liabilities:				
Current portion of long-term debt	$	5,128	$	—
Accounts payable		672,534		2,238,460
Accrued expenses and other payables		319,028		666,817
Deferred revenue		29,415		25,188
Amounts due to related parties		—		4,018,206
Income taxes payable		13,104		264,956
Total current liabilities		1,039,209		7,213,627
Long-term debt, net of current portion		3,420		—
Total liabilities		1,042,629		7,213,627
Commitments (Note 10)				
Minority interest		—		636,681
Ordinary shares, par value HK$1 authorized 10,000 shares; issued and outstanding 2 shares at December 31, 2004 and December 21, 2005		—		—
Retained earnings		687,980		579,326
Accumulated other comprehensive income		—		1,303
Total shareholder's equity		687,980		580,629
Total	$	1,730,609	$	8,430,937

See notes to consolidated financial statements

Table of Contents

Active Advertising Agency Limited
(The predecessor to Xinhua Finance Advertising Limited)
Consolidated statements of operations

(In U.S. dollars)		For the year ended December 31, 2004		For the period ended December 21, 2005
Advertising revenue, net	$	5,211,657	$	6,996,726
Costs and Expenses				
Costs of advertising		4,400,010		5,645,455
Selling, general and administrative expenses		709,593		640,402
Total costs and expenses		5,109,603		6,285,857
Income from operations		102,054		710,869
Other income (expenses):				
Interest expenses		(154)		(425)
Interest income		486		7,879
Income before provision for income taxes		102,386		718,323
Provision for income taxes		19,643		119,100
Net income	$	82,743	$	599,223

See notes to consolidated financial statements

Table of Contents

Active Advertising Agency Limited
(The predecessor to Xinhua Finance Advertising Limited)
Consolidated statements of shareholder's equity and comprehensive income

For the year ended December 31, 2004
and period ended December 21, 2005

(In U.S. dollars)	Ordinary shares Number of shares	Par value	Retained earnings	Accumulated other comprehensive income	Total	Comprehensive income
Balance, January 1, 2004	2	$ —	$ 605,237	$ —	$ 605,237	
Net income	—	—	82,743	—	82,743	$ 82,743
Balance, December 31, 2004	2	—	687,980	—	687,980	
Dividend paid	—	—	(707,877)	—	(707,877)	
Net income	—	—	599,223	—	599,223	$ 599,223
Foreign currency translation				1,303	1,303	1,303
Balance, December 21, 2005	2	$ —	$ 579,326	$ 1,303	$ 580,629	$ 600,526

See notes to consolidated financial statements

Table of Contents

Active Advertising Agency Limited
(The predecessor to Xinhua Finance Advertising Limited)
Consolidated statements of cash flows

(In U.S. dollars)		For the year ended December 31, 2004		For the period ended December 21, 2005
Cash flows from operating activities:				
Net income	$	82,743	$	599,223
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation		17,247		10,053
Loss on disposal of property and equipment		—		4,359
Changes in operating assets and liabilities (net of effect of acquisition):				
Accounts receivable		(294,377)		(967,965)
Prepaid advertising program space and airtime		(33,797)		(235,516)
Prepaid expenses and other current assets		(7)		10,953
Accounts payable		(206,525)		1,565,926
Accrued expense and other payables		218,127		(214,054)
Deferred revenue		29,415		(29,415)
Deferred tax		—		(8,411)
Income taxes payable		28,556		94,963
Net cash (used in) provided by operating activities		(158,618)		830,116
Cash flows from investing activities:				
Purchases of property and equipment		(22,889)		(8,434)
Cash received from acquisition of subsidiaries, net of cash paid		—		997,506
Amounts due from related parties		(139,092)		130,933
Net cash (used in) provided by investing activities		(161,981)		1,120,005
Cash flows from financing activities:				
Issuance of long term debt		10,256		—
Repayment of long term debt		(1,709)		(8,548)
Contribution from former shareholder		—		489
Dividend paid		—		(707,877)
Net cash provided by (used in) financing activities		8,547		(715,936)
Effect of exchange rate changes		—		814
Net (decrease) increase in cash		(312,052)		1,234,999
Cash, beginning of the year		398,455		86,403
Cash, end of the year	$	86,403	$	1,321,402
Supplemental disclosure of cash flow information:				
Interest paid	$	(154)	$	(425)
Income taxes refund received (paid)	$	8,913	$	(32,747)
Supplemental schedule of non−cash investing activities:				
Amounts due to related parties for acquisition of subsidiary	$	—	$	1,368,639

See notes to consolidated financial statements

Table of Contents

Active Advertising Agency Limited
(The predecessor to Xinhua Finance Advertising Limited)
Notes to consolidated financial statements
For the years ended December 31, 2004 and period ended December 21, 2005
(In U.S. dollars)

1. Organization and principal activities
Active Advertising Agency Limited ("Active Advertising Hong Kong") was incorporated in Hong Kong on February 17, 1997. All of its ordinary shares were acquired by Upper Will Enterprise Limited, a British Virgin Islands company and a wholly–owned subsidiary of Xinhua Finance Advertising Limited (formerly Ming Shing International Limited), on December 21, 2005. Active Advertising Hong Kong and its subsidiaries (collectively the "Company", the predecessor to Xinhua Finance Advertising Limited) place advertisements and provide advertising services to customers in Hong Kong. Active Advertising Hong Kong acts as an agent for newspaper companies and outdoor advertising companies selling advertising spaces to corporate advertisers. Active Advertising Hong Kong also provides design and production services to its customers. To date, revenue from design and production services has not been material.

The following is a description of Active Advertising Hong Kong's wholly–and majority–owned subsidiaries and their businesses:

Active Advertising (Guangzhou) Co. Ltd. ("Active Guangzhou") was established in the People's Republic of china ("PRC") on June 1, 2005 as a wholly–owned subsidiary of Active Advertising Hong Kong. Active Guangzhou provides advertising placement services to customers in Guangzhou and customers referred by Active Advertising Hong Kong. Active Guangzhou acts as an agent for newspaper companies and outdoor advertising companies selling advertising space to corporate advertisers. Effective December 21, 2005, Active Guangzhou became the primary beneficiary of two variable interest entities ("VIEs") through a number of nomination and equity pledged agreements with the VIE's equity owners. A VIE is an entity in which equity investors generally do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. A VIE is consolidated by its primary beneficiary when it is determined that the primary beneficiary will absorb the majority of the VIE's expected losses and/or expected residual returns. Consistent with the provisions of FASB Interpretation No. 46, "*Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51*" (as revised, "FIN 46R"), these VIEs are included in the consolidated financial statements of Active Guangzhou.

The following is a summary and description of Active Guangzhou's consolidated VIEs and their majority–owned subsidiaries:

- Shenzhen Active Trinity Advertising Co., Ltd. ("Shenzhen Trinity") was established in the PRC in December 2005 by two PRC citizens for a term of 10 years and provides advertising placement services to customers in Shenzhen and customers referred by Active Advertising Hong Kong. Through a number of nomination and equity pledged agreements, dated December 21, 2005, Shenzhen Trinity is accounted for as a wholly–owned VIE of Active Guangzhou and is included in the consolidated financial statements of Active Guangzhou.

Table of Contents

- Beijing Taide Advertising Co., Ltd. ("Beijing Taide") was established in the PRC on March 23, 2005 by two PRC citizens for a term of 20 years and provides design, production and placement of print advertisements to customers in Beijing. Through a number of nomination and equity pledged agreements dated December 21, 2005, Beijing Taide is accounted for as a wholly-owned VIE of Active Guangzhou and is included in the consolidated financial statements of Active Guangzhou.

- Shangtuo Zhiyang International Advertising (Beijing) Co. Ltd. ("Shangtuo Zhiyang") was established on December 9, 2005 by Beijing Taide and a PRC citizen for a term of 30 years and is engaged in the design, production, and placement of advertising and provides advertising services. Shangtuo Zhiyang is the sole advertising placement agent for a newspaper published in the PRC, and also acts as an advertising placement agent for other internet websites, newspapers, and magazines. Shangtuo Zhiyang also provides other forms of promotion and consultancy services to property developers and other customers in real estate and property sales.

- Beijing Longmei Television and Broadcast Advertising Co., Ltd. ("Beijing Longmei") was established on September 24, 2002 by two PRC citizens for a term of 20 years and is engaged in the design, production and distribution of television advertisements, and acts as the agent for placement of advertisements during certain television shows broadcast by a major television station in Beijing. On December 12, 2005, Beijing Taide acquired 80% of the controlling interest in Beijing Longmei from its equity owners.

- Beijing Jinlong Runxin Advertising Co., Ltd. ("Beijing Jinlong Runxin") was established on August 5, 2004 by two PRC citizens for a term of 20 years and is engaged in the design, production and distribution of television advertisements. On December 19, 2005, Beijing Taide acquired 80% of the controlling interest in Beijing Jinlong Runxin from its equity owners.

- Shanghai Yuanxin Advertising Intermediary Co., Ltd. ("Shanghai Yuanxin") was established on December 23, 2003 by two PRC citizens for a term of 10 years and is engaged in the design, production and distribution of television advertisements, and acts as the agent for placement of advertisements during certain television shows broadcast by a major television station in Shanghai. Shanghai Yuanxin also acts as the exclusive advertising agent for approximately 200 billboards on some university campuses in Shanghai. On December 16, 2005, Beijing Taide acquired 80% of the controlling interest in Shanghai Yuanxin from its equity owners.

The following financial statement balances of Beijing Taide and Shenzhen Trinity were included in the accompanying consolidated financial statements as of December 21, 2005:

	Beijing Taide	Shenzhen Trinity	Total
Total assets	$ 5,229,959	$37,042	$ 5,267,001
Total liabilities	(1,403,309)	—	(1,403,309)

2. Summary of principal accounting policies

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP").

Table of Contents

(b) Basis of consolidation
The consolidated financial statements include the assets, liabilities, revenues and expenses of Active Advertising Hong Kong, its wholly– and majority–owned subsidiaries, and VIEs.
All of the VIEs' registered capital is held as collateral against borrowings from Active Advertising Hong Kong.
All significant intercompany transactions and balances are eliminated on consolidation.
(c) Use of estimates
The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the accompanying consolidated financial statements include allowances for doubtful accounts, valuation of deferred tax assets, useful lives of property and equipment, and impairment of long–lived assets.
(d) Revenue recognition
Advertising revenue is recognized when advertisements are published, broadcasted, or placed on customers' websites net of provisions for estimated rebates, rate adjustments, and discounts. Revenues are recorded net of applicable business taxes totaling $357,471 and $188,346 for the year ended December 31, 2004 and the period ended December 21, 2005.
Payments received in advance are deferred until earned and are reported as deferred revenue in the consolidated balance sheet.
The Company extends credit based upon an evaluation of the customers' financial condition and collateral is not required from such customers. Allowances for estimated credit losses, rebates, rate adjustments and discounts are generally established based on historical experience.
In the normal course of business, the Company acts as or uses an intermediary or agent in placing advertising transactions with third parties. Such transactions are recorded on a gross or net basis depending on whether the Company is acting as the principal or as an agent in the transaction. The Company serves as the principal in transactions where it purchases blocks of advertising time and attempts to sell the time to advertisers and it has substantial risks and rewards of ownership and, accordingly, records revenue on a gross basis. For those transactions in which the Company finds advertising space for advertisers and it does not have substantial risks and rewards of ownership, the Company is considered an agent in the transaction and, accordingly, records revenue on a net basis.

Table of Contents

(e) Restricted cash

Restricted cash are cash balances pledged for the use of banking facilities granted by banks.

(f) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on a straight–line basis over the following estimated useful lives:

Leasehold improvements	2 years
Billboards and lampposts	10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

(g) Impairment of long–lived assets

The Company evaluates its long–lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss as the excess of carrying amounts over fair value of the assets. There was no impairment losses recorded for the year ended December 31, 2004 or the period ended December 21, 2005.

(h) Income taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non–current based on their characteristics.

(i) Foreign currency translation

The functional currency of the Company is Hong Kong dollars ("HKD"). Transactions denominated in other currencies are translated into HKD at the average rates of exchange prevailing during each period. Monetary assets and liabilities denominated in other currencies are translated into HKD at rates of exchange in effect on the balance sheet dates. Nonmonetary assets and liabilities are remeasured into HKD at historical exchange rates.

The Company uses the United States dollar as its reporting currency. Accordingly, assets and liabilities are translated using exchange rates in effect at each balance sheet date and average exchange rates for the period are used for revenue and expense transactions.

Table of Contents

Currency transaction gains and losses are recorded in the statement of operations. Translation adjustments are recorded in accumulated other comprehensive income, a component of shareholders' equity. Both transaction gains and losses and translation adjustments are not material for the year ended December 31, 2004 and the period ended December 21, 2005.

(j) Concentration of credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, accounts receivable, and amounts due from related parties.

One customer contributed $3,036,330 (43%) of the Company's revenues during the period ended December 21, 2005. There were no customers contributing 10% or more of the Company's revenues in the year ended December 31, 2004.

One customer at December 31, 2004 and the same customer at December 21, 2005 accounted for 73% and 38% of the Company's accounts receivable balances as of December 31, 2004 and December 21, 2005, respectively. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. As of December 31, 2004 and December 21, 2005, no allowances for doubtful accounts were considered necessary as accounts receivable balances are expected to be collectible. Historical bad debts have not been significant.

Substantially all of the Company's revenue for the year ended December 31, 2004 and the period ended December 21, 2005 were generated from Hong Kong.

(k) Fair value of financial instruments

The carrying amounts of accounts receivables, accounts payable, accrued expenses and other payables, amounts due from related parties, and amounts due to related parties approximated their fair values due to the short-term maturity of these instruments. The carrying amount of long-term debt approximated its fair value as it was approaching maturity.

(l) Long-term debt

The Company had a long-term debt at December 31, 2004. The original amount of the borrowing was approximately $10,300 (HKD80,000) with a payment term of two years bearing interest at 4.5% per annum. The balance of the loan was paid off during 2005.

(m) Comprehensive income

Comprehensive income is reported on the accompanying statements of shareholder's equity and consisted of net income and foreign currency translation gains and losses.

3. Acquisitions

On December 21, 2005, the Company became the primary beneficiary of Beijing Taide through a number of loan agreements, equity pledge agreements, exclusive equity purchase option agreements and subrogation agreements. Accordingly, Beijing Taide is considered to be a wholly-owned VIE of the Company and is accounted for similar to a purchase. All assets acquired and liabilities assumed are stated at fair value. Initial consideration for the acquisition

Table of Contents

consisted of $1,368,639 in cash payment. The primary asset acquired was television, print, and outdoor advertising agency operations in the PRC which would enhance the Group's geographic reach and operating scope. The Company has consolidated the operating results of Beijing Taide effective on the date of acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of nomination and equity pledge agreement. The Company is in the process of obtaining third–party valuations, from American Appraisal China Limited, of its property and equipment and certain identifiable intangible assets; thus, the allocation of the purchase price consideration disclosed herein is preliminary and subject to revision once the Company completes its valuation exercise.

		Fair value
Assets acquired:		
Cash	$	997,506
Accounts receivable		1,541,918
Prepaid advertising program space and airtime		847,347
Prepaid expenses and other current assets		65,614
Amounts due from related parties		980,785
Rent deposit		15,657
Deferred tax asset		138,800
Property and equipment, net		811,180
Total		5,398,807
Liabilities assumed:		
Accrued expenses and other payables		561,843
Deferred revenue		25,188
Amounts due to related parties		2,649,567
Income taxes payable		156,889
Total		3,393,487
Minority interest		636,681
Net assets acquired		1,368,639
Total considerations		1,368,639

The following pro forma information summarizes the effect of the acquisition, if the acquisitions had occurred as of March 23, 2005 (date of establishment of Beijing Taide). The pro forma information is presented for informational purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on March 23, 2005, nor is it necessarily indicative of future results of operations of the combined enterprise:

Pro forma revenues	$	12,415,767
Pro forma net income from operations		354,817
Pro forma net income		460,277

Table of Contents

4. Property and equipment, net

Property and equipment, net consisted of the following at December 31, 2004 and December 21, 2005:

	2004	2005
Leasehold improvements	$ —	$ 8,971
Billboards and lampposts	—	554,778
Furniture, fixtures and equipment	111,126	213,285
Motor vehicles	10,256	132,315
Total	121,382	909,349
Less: accumulated depreciation	97,069	101,224
Total	—	808,125
Deposit paid for purchase of equipment	—	21,390
Property and equipment, net	$ 24,313	$ 829,515

Depreciation expense was $17,247 and $10,053 for the year ended December 31, 2004 and period ended December 21, 2005, respectively.

5. Capital structure

On February 17, 1997, the Company authorized 10,000 ordinary shares with a par value of HK$1 per share and issued 2 ordinary shares. During 2005, the Company was acquired by Upper Will Enterprises Limited.

6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following as of December 31, 2004 and December 21, 2005:

	2004	2005
Subsidy income receivable	$ —	$ 45,803
Consulting income receivable	—	12,347
Rent deposit	—	4,367
Utility deposits	4,194	4,194
Prepaid expenses	—	1,235
Other	—	24,706
Total	$ 4,194	$ 92,652

The Company provides consultancy services from time to time to its customers. Consultancy services are not considered to be the Company's core service nor are they the Company's current business strategy. As such, consultancy services are reported as other income as services are provided. The related consultancy receivables are included in prepaid expenses and other current assets in the accompanying balance sheets.

Table of Contents

7. Accrued expenses and other payable

Accrued expenses and other payable consisted of the following as of December 31, 2004 and December 21, 2005:

	2004	2005
Accrued advertising placement	$ 305,444	$ 105,641
Accrued salary and welfare	—	80,582
Payable for acquisition of property and equipment	—	175,775
Other taxes payable	—	293,959
Other	13,584	10,860
Total	$ 319,028	$ 666,817

8. Provision for income taxes

Active Advertising Hong Kong is subject to Hong Kong Profits Tax calculated at a rate of 17.5% on Hong Kong taxable income. Current provision for Hong Kong income tax totaled $19,643 and $119,100 for the year ended December 31, 2004 and the period ended December 21, 2005, respectively.

Beijing Taide and Beijing Jinlong Runxin qualified as "cultural media enterprises" and were granted a two–year income tax exemption by the relevant tax authorities effective through December 31, 2006.

All other subsidiaries of the Company incorporated in the PRC are governed by either the PRC Enterprises Income Tax or the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws ("Income Tax Laws"). Pursuant to the PRC Income Tax Laws, the foreign investment enterprises are subject to income tax at statutory rate of 33% (30% of the state income tax plus 3% local income tax) on PRC taxable income.

Deferred tax asset consisted of net operating losses totaling $147,211 at December 21, 2005.

There were no significant deferred tax liabilities as of December 31, 2004 and for the period ended December 21, 2005.

The Company has operating loss carry forwards of $446,239 which will expire on various dates through 2010 and net operating loss generated in Hong Kong may be carried forward indefinitely.

Table of Contents

Reconciliation between the provision for income tax computed by applying the PRC enterprise income rate of 33% to income before income taxes and the actual provision for income taxes is as follows:

	2004	2005
Net income before provision for income taxes	$ 102,386	$ 718,323
PRC statutory tax rate	17.5%	17.5%
Income tax at statutory tax rate	17,918	125,707
Expenses not deductible for tax purposes:		
Salaries and employee benefits	(52)	137
Other	1,777	(6,744)
Provision for income taxes	$ 19,643	$ 119,100

9. Related party transactions

Amounts due from (to) related parties are as follows at December 31, 2004 and December 21, 2005:

	2004	2005
Due from related parties:		
Due from directors of subsidiaries	$ 250,039	$ 324,336
Due from affiliate	4,181	55,573
Due from former shareholders of subsidiaries	—	724,163
Total	$ 254,220	$ 1,104,072
Due to related parties:		
Due to directors of subsidiaries	$ —	363,056
Due to minority shareholders	—	2,286,511
Due to former shareholders of subsidiaries	—	1,368,639
Total	$ —	$ 4,018,206

All amounts due from related parties are non–interest bearing and are collectible on demand. Amounts due from affiliate represented advances to an entity affiliated with one of the Company's directors. Amounts due from related parties are expected to be collectible therefore no allowance for uncollectible amounts was considered necessary at December 31, 2004 and at December 21, 2005. Amounts due to minority shareholders and former shareholders represented considerations paid by these individuals in business combinations and are refundable by the Company. All amounts advanced or borrowed are non–interest bearing and are due on demand. Amounts due from former shareholders were collected in full during 2006.

Table of Contents

10. Commitments

(a) Capital expenditure

The Company has entered into an agreement during the period ended December 21, 2005 to purchase equipment for a total of $59,958. Unexpended balance at December 21, 2005 was $38,568.

(b) Operating leases

The Company has operating lease agreements principally for its office spaces in the PRC and Hong Kong. These leases expire in 2007 and are renewable upon negotiation. Rent expenses were $20,424 and $27,692 for the year ended December 31, 2004 and the period ended December 21, 2005, respectively. Future minimum lease payments under non–cancellable operating lease agreements are as follows:

2006	$	121,517
2007		57,891
Total	$	179,408

(c) Other

The Company has a number of agreements to purchase advertising airtime from television stations. As of December 31, 2004 and December 21, 2005, future minimum purchase commitments under the agreements totaled approximately $5,116,110 and $5,963,370, respectively. During the period ended December 21, 2005, $5,116,110 was paid and $5,963,370 will be payable in 2006.

11. Segment information

The Company operates in one business segment in the provision of advertising placement services. The Company's revenues are generated from advertising revenue and substantially all the Company's identifiable assets are located in the PRC. During the year ended December 31, 2004 and the period ended December 21, 2005, the Company's chief decision maker was its General Manager.

12. Employee benefit plans

Employees of the Company and its subsidiaries located in Hong Kong are covered by the Mandatory Provident Fund Scheme ("MPF Scheme") established on December 1, 2000 under the Mandatory Provident Fund Scheme Ordinance of Hong Kong. The calculation of contributions for these eligible employees is based on 5% of the applicable payroll costs, and contributions are matched by the employees. The amounts paid by the Company to the MPF Scheme were $14,497 and $16,251 for the year ended December 31, 2004 and the period ended December 21, 2005, respectively.

Table of Contents

Employees of the Company located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The amounts to be contributed are determined based on 20% of the applicable payroll costs. Expenses paid by the Company to these defined contribution schemes were not material for the year ended December 31, 2004 and the period ended December 21, 2005.

In addition, the Company is required by law to contribute approximately 2% to 8% of applicable salaries for medical insurance benefits, unemployment, and other statutory benefits. The PRC government is directly responsible for the payment of the benefits to these employees. The amounts contributed to medical insurance benefits, unemployment, and other statutory benefits were de minimis for the year ended December 31, 2004 and the period ended December 21, 2005.

13. Statutory reserves

As stipulated by the relevant laws and regulations in the PRC, the Company is required to maintain non−distributable reserves which include a statutory surplus reserve and a statutory welfare reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of the profit after taxes as determined under PRC GAAP. The statutory welfare reserve allocations are determined annually at the discretion of the Company's board of directors. Once appropriated, these amounts are not available for future distribution to owners or shareholders. The statutory surplus reserve may be applied against prior year losses, if any, and may be applied to the purchase of capital assets upon the board of directors' approval. Amount appropriated to the statutory surplus fund totaled $489 in 2005. There was no appropriation made to the statutory surplus reserve during 2004. There has been no appropriation made to the staff welfare and incentive bonus reserve during the year ended December 31, 2004 and period ended the December 21, 2005.

Table of Contents

Report of independent registered public accounting firm

To the Board of Directors and Owners of
Beijing Taide Advertising Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Beijing Taide Advertising Co., Ltd. and its subsidiaries (the "Company") as of December 20, 2005, and the related consolidated statements of operations, owners' equity and cash flows for the period from March 23, 2005 (date of establishment) to December 20, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 20, 2005 and the consolidated results of its operations and its cash flows for the period from March 23, 2005 (date of establishment) to December 20, 2005, in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Hong Kong
September 22, 2006

Table of Contents

Beijing Taide Advertising Co., Ltd.
Consolidated balance sheet

(In U.S. dollars)		December 20, 2005
Assets		
Current assets:		
Cash	$	997,506
Accounts receivable		1,541,918
Prepaid advertising airtime		847,347
Prepaid expenses and other current assets		65,614
Amounts due from related parties		980,785
Total current assets		4,433,170
Rent deposit		15,657
Deferred tax asset		138,800
Property and equipment, net		811,180
Total	$	5,398,807
Liabilities and owners' equity		
Current liabilities:		
Accrued expenses and other payables	$	561,843
Deferred revenue		25,188
Amounts due to related parties		2,649,567
Income taxes payable		156,889
Total current liabilities		3,393,487
Commitments (Note 10)		
Minority interest		636,681
Registered capital		1,234,720
Retained earnings		133,919
Total owners' equity		1,368,639
Total	$	5,398,807

See notes to consolidated financial statements

Table of Contents

Beijing Taide Advertising Co., Ltd.
Consolidated statement of operations
Period from March 23, 2005
(Date of establishment) to December 20, 2005

(In U.S. dollars)

Advertising revenue, net	$	319,876
Costs and expenses:		
Cost of advertising		79,286
Selling expenses		31,152
General and administrative expenses		75,574
Total costs and operating expenses		186,012
Income from operations		133,864
Interest income		55
Net income	$	133,919

See notes to consolidated financial statements

Table of Contents

Beijing Taide Advertising Co., Ltd.
Consolidated statement of owners' equity
Period from March 23, 2005 (Date of establishment) to December 20, 2005

(In U.S. dollars)	Registered capital	Retained earnings	Total
Capital contribution	$ 1,234,720	$ —	$ 1,234,720
Net income	—	133,919	133,919
Balance, December 20, 2005	$ 1,234,720	$ 133,919	$ 1,368,639

See notes to consolidated financial statements

Table of Contents

Beijing Taide Advertising Co., Ltd.
Consolidated statement of cash flows
Period from March 23, 2005 (Date of establishment) to December 20, 2005

(In U.S. dollars)

Cash flows from operating activities:		
Net income	$	133,919
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		5,867
Changes in operating assets and liabilities (net of effects of acquisitions):		
Accounts receivable		(90,679)
Prepaid expenses and other current assets		(1,566)
Rent deposit		(9,731)
Accrued expenses and other payables		16,229
Cash provided by operating activities		54,039
Cash flows from investing activities:		
Purchases of property and equipment		(31,117)
Cash received in excess of cost from acquisition of subsidiaries		695,955
Amounts due from related parties		(980,785)
Cash used in investing activities		(315,947)
Cash flows from financing activities:		
Capital contribution		1,234,720
Capital contribution from minority interest		24,694
Cash provided by financing activities		1,259,414
Net increase in cash		997,506
Cash, beginning of the period		—
Cash, end of the period	$	997,506
Supplemental disclosure of cash flow information:		
Interest paid	$	—
Income tax paid	$	—
Supplemental schedule of non-cash investing activities:		
Amounts due to related parties for acquisition of subsidiaries	$	2,286,511

See notes to consolidated financial statements

Table of Contents

Beijing Taide Advertising Co., Ltd.
Notes to consolidated financial statements
Period from March 23, 2005 (Date of establishment) to December 20, 2005
(In U.S. dollars)

1. Organization and principal activities

Beijing Taide Advertising Co., Ltd. ("Beijing Taide") was established in the People's Republic of China ("PRC") on March 23, 2005 by two PRC citizens for a term of 20 years and provides design, production and placement of print advertisements to customers in Beijing. Beijing Taide and its subsidiaries (collectively the "Company") are principally engaged in the creation and placement of advertising for television, radio, print media and campus billboards. Through a number of contractual arrangements, Beijing Taide is considered to be a wholly–owned variable interest entity of Active Advertising (Guangzhou) Co., Ltd. ("Active Guangzhou", a PRC company and an indirect wholly–owned subsidiary of Xinhua Finance Advertising Limited (formerly Ming Shing International Limited, "Ming Shing")). Beijing Taide is also, along with Active Advertising Agency Limited, a predecessor of Ming Shing. The following is a description of Beijing Taide's majority–owned subsidiaries and their businesses:

- Shangtuo Zhiyang International Advertising (Beijing) Co. Ltd. ("Shangtuo Zhiyang") was established on December 9, 2005, by Beijing Taide who owns 80% and a PRC citizen who owns 20%, for a term of 30 years and is engaged in the creation, production, and placement of advertising. Shangtuo Zhiyang has the exclusive rights to selling advertising for a newspaper published in the PRC, and also acts as an advertising placement agent for other internet websites, newspapers, and magazines. Shangtuo Zhiyang also provides other forms of promotion and consultancy services to property developers and other customers in real estate and property sales.
- Beijing Longmei Television and Broadcast Advertising Co., Ltd., ("Beijing Longmei") was established on September 24, 2002 by two PRC citizens for a term of 20 years and is engaged in the creation, production and distribution of television advertisements, and acts as the agent for placement of advertisements during certain television shows broadcast by a major television station in Beijing. On December 12, 2005, Beijing Taide acquired 80% of the controlling interest in Beijing Longmei from its equity owners.
- Beijing Jinlong Runxin Advertising Co., Ltd. ("Beijing Jinlong Runxin") was established on August 5, 2004 by two PRC citizens for a term of 20 years and is engaged in the creation, production and distribution of television advertisements. On December 19, 2005, Beijing Taide acquired 80% of the controlling interest in Beijing Jinlong Runxin from its equity owners.
- Shanghai Yuanxin Advertising Intermediary Co., Ltd., ("Shanghai Yuanxin") was established on December 23, 2003 by two PRC citizens for a term of 10 years and is engaged in the creation, production and distribution of television advertisements, and acts as the agent for placement of advertisements during certain television shows broadcast by a major television station in Shanghai. Shanghai Yuanxin also acts as the exclusive advertising agent for approximately 281 billboards on some university campuses in Shanghai. On December 16,

Table of Contents

2005, Beijing Taide acquired 80% of the controlling interest in Shanghai Yuanxin from its equity owners.

2. Summary of principal accounting policies

(a) Basis of presentation

The financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of consolidation

The consolidated financial statements include the financial statement of Beijing Taide and its subsidiaries. All significant intercompany transactions and balances are eliminated during consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the accompanying financial statements include allowance for doubtful accounts, valuation of deferred tax assets, useful lives of property and equipment and impairment of long–lived assets.

(d) Revenue recognition

Advertising revenue is recognized when advertisements are published, broadcasted, or placed on customers' website, net of provisions for rebates, rate adjustments, and discounts. Advertising revenue is recorded net of applicable business taxes totaling $19,400 for the period from March 23, 2005 (date of establishment) to December 20, 2005. Payments received in advance are deferred until earned and such amounts are reported as deferred revenue on the accompanying consolidated balance sheet.

The Company extends credit based upon an evaluation of the customers' financial condition and collateral is not required from such customers. Allowances for estimated credit losses, rebates, rate adjustments and discounts are generally established based on historical experience.

In the normal course of business, the Company acts as an intermediary or agent in placing advertising transactions with TV stations. Such transactions are recorded on a gross or net basis depending on whether the Company is acting as the principal or as an agent in the transaction. The Company is considered the principal in transactions where it purchases blocks of advertising time and attempts to sell the time to advertisers and it has substantial risks and rewards of ownership and, accordingly, records revenue on a gross basis. For those transactions in which the Company find advertising space for an advertisers and it does not have substantial risks and rewards of ownership, the Company is considered an agent in the transaction and, accordingly, records revenue on a net basis.

Table of Contents

(e) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight–line basis over the following estimated useful lives:

Leasehold improvements	2 years
Billboards and lampposts	10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

(f) Impairment of long–lived assets

The Company evaluates its long–lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss as the excess of carrying amounts over fair value of the assets. There was no impairment losses recorded for the period from March 23, 2005 (date of establishment) to December 20, 2005.

(g) Income taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non–current based on their characteristics.

(h) Foreign currency translation

The functional currency of the Company is Renminbi ("RMB"). Transactions dominated in other currencies are translated into RMB at the average rates of exchange prevailing during each period. Monetary assets and liabilities denominated in other currencies are translated into RMB at rates of exchange in effect on the balance sheet dates. Non monetary assets and liabilities are remeasured into RMB at historical exchange rates.

The Company uses the United States dollar as its reporting currency. Accordingly, assets and liabilities are translated using exchange rates in effect at each balance sheet date and average exchange rates for the period are used for revenue and expense transactions.

Currency transaction gains and losses are recorded in the statement of operations. Translation adjustments are recorded in accumulated other comprehensive income, a component of owners' equity. Both transaction gains and losses and translation adjustments are not material for the period from March 23, 2005 (date of establishment) to December 20, 2005.

Table of Contents

(i) Concentration of credit risk
Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, accounts receivable and amounts due from (to) related party.
The following customers contributed 10% or more of the Company's revenues during the period from March 23, 2005 (date of establishment) to December 20, 2005:

Customer A	$	135,819
Customer B		98,778

Three customers as of December 20, 2005 each accounted for 10% or more of the Company's accounts receivable balances, representing an aggregate of 51% of the Company's accounts receivable balance at December 20, 2005. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. As of December 20, 2005, no allowance for doubtful accounts was considered necessary as accounts receivable balances were expected to be collectible. Historical bad debts have not been significant.
All of the Company's revenue for the period from March 23, 2005 (date of establishment) to December 20, 2005 was generated from the PRC.
(j) Fair value of financial instruments
The carrying amounts of accounts receivables, accounts payable, accrued expenses and other payables and amounts due from (to) related parties approximated their fair values at December 20, 2005 due to the short-term maturity of these instruments.
(k) Comprehensive income
Comprehensive income is reported on the accompanying consolidated statement of owners' equity and consists of net income for the period.

3. Acquisitions

(a) Beijing Longmei
On December 12, 2005, Beijing Taide acquired 80% equity interests of Beijing Longmei for initial consideration of $398,519, including estimated transaction costs of $1,511. The amount has not yet been paid and was recorded as due to related parties. The primary asset acquired was the television advertising agency operations with a major television station in Beijing, which would enhance the Group's geographic reach and operation scope. Beijing Taide has consolidated the operating results of Beijing Longmei effective on acquisition date.
The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of obtaining third-party valuations, from American Appraisal China Limited, of its property and equipment and certain

Table of Contents

identifiable intangible assets; thus, the allocation of the purchase price consideration disclosed herein is preliminary and subject to revision once the Company completes its valuation exercise.

		Fair value
Assets acquired:		
Cash	$	157,130
Accounts receivable		97,172
Prepaid advertising airtime		847,347
Prepaid expenses and other current assets		4,663
Deferred tax asset		89,900
Property and equipment		161,129
Total		1,357,341
Liabilities assumed:		
Accrued expenses and other payable		88,410
Deferred revenue		25,188
Amount due to related parties		300,037
Total		413,635
Minority interest		545,187
Net assets acquired		398,519
Cash consideration		398,519

(b) Beijing Jinlong Runxin

On December 19, 2005, Beijing Taide acquired 80% equity interests of Beijing Jinlong Runxin for initial consideration of $1,620,790, including estimated transaction costs of $1,510. The amount has not yet been paid and was recorded as due to related parties. The primary asset acquired was television advertising agency operations, which would enhance the Group's operation scope. Beijing Taide has consolidated the operating results of Beijing Jinlong Runxin effective on acquisition date.

Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of obtaining third-party valuations, from American Appraisal China Limited, of its property and equipment and certain identifiable intangible assets; thus, the allocation of the purchase price consideration disclosed herein is preliminary and subject to revision once the Company completes its valuation exercise.

		Fair value
Assets acquired:		
Cash	$	453,292
Accounts receivable		1,311,472
Property and equipment		16,728
Deferred tax asset		48,900
Rent deposit		3,210
Total		1,833,602
Liabilities assumed:		
Accrued expenses and other payable		174,042
Income taxes payable		38,770
Total		212,812
Net assets acquired		1,620,790
Cash consideration		1,620,790

(c) Shanghai Yuanxin
On December 16, 2005, Beijing Taide acquired 80% equity interests of Shanghai Yuanxin for initial consideration of $267,202, including estimated transaction costs of $1,445 The amount has not yet been paid and was recorded as due to related parties. The primary asset acquired was the advertising agency operations in Shanghai, which would enhance the Group's geographic reach and operation scope. Beijing Taide has consolidated the operating results of Shanghai Yuanxin effective on acquisition date.

Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of obtaining third–party valuations, from American Appraisal China Limited, of its property and equipment and certain identifiable intangible assets; thus, the allocation of the purchase price consideration disclosed herein is preliminary and subject to revision once the Company completes its valuation exercise.

		Fair value
Assets acquired:		
Cash	$	85,533
Accounts receivable		42,595
Prepaid expenses and other current assets		59,385
Property and equipment		608,073
Rent deposit		2,716
Total		798,302
Liabilities assumed:		
Accounts payable		175,775
Accrued expenses and other payable		107,387
Amount due to related parties		63,019
Income taxes payable		118,119
Total		464,300
Minority interest		66,800
Net assets acquired		267,202
Cash consideration		267,202

The following unaudited pro forma information summarizes the effect of the acquisition of Beijing Longmei, Beijing Jinlong Runxin and Shanghai Yuanxin, if the acquisitions had occurred as of March 23, 2005 (date of establishment). The pro forma information is presented for informational purposes only and does not include related party amounts. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on March 23, 2005 (date of establishment), nor is it necessarily indicative of future results of operations of the combined enterprise:

		Period from March 23, 2005 (Date of establishment) to December 20, 2005
Pro forma revenues	$	5,040,474
Pro forma net loss from operations		(632,060)
Pro forma net loss		(554,897)

Table of Contents

4. Property and equipment, net

Property and equipment, net consisted of the following at December 20, 2005:

Leasehold improvements	$	12,781
Billboards and lampposts		554,778
Furniture, fixtures and equipment		95,783
Motor vehicles		132,315
Total		795,657
Less: accumulated depreciation and amortization		5,867
Total		789,790
Deposit paid for the purchase of equipment		21,390
Property and equipment, net	$	811,180

5. Capital structure

The Company was established on March 23, 2005 with registered and contributed capital of $1,234,720. Effective on December 20, 2005, Active Guangzhou became the primary beneficiary of Beijing Taide through a number of nomination and equity pledge agreements between Active Guangzhou and the equity owners of Beijing Taide. A variable interest entity ("VIE") is an entity in which equity investors generally do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. A VIE is consolidated by its primary beneficiary when it is determined that the primary beneficiary will absorb the majority of the VIE's expected losses and/or expected residual returns. Consistent with the provisions of FASB Interpretation No. 46, "*Consolidation of Variable Interest Entities— an Interpretation of ARB No. 51*" (as revised, "FIN 46R"), Beijing Taide is accounted for as a VIE of Active Guangzhou.

6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following at December 20, 2005:

Subsidy income receivable	$	45,803
Consulting income receivable		12,347
Rent deposit		1,803
Other		5,661
Total	$	65,614

The Company provides consultancy services from time to time to its customers. Consultancy services are not considered to be the Company's core service nor are they the Company's current business strategy. As such, consultancy services are reported as other income as services are provided. The related consultancy receivables are included in prepaid expenses and other current assets in the accompanying balance sheet.

Table of Contents

7. Accrued expenses and other payable

Accrued expenses and other payable consisted of the following at December 20, 2005:

Accrual salary and welfare	$	80,582
Payable for acquisition of property and equipment		175,775
Other taxes payable		292,276
Other		13,210
Total	$	561,843

8. Provision for income taxes

Beijing Taide and Beijing Jinlong Runxin qualified as "cultural media enterprises" and were granted a two–year income tax exemption by the relevant tax authorities effective through December 31, 2006.

All other subsidiaries of the Company were established in the PRC and are subject to PRC Enterprises Income Tax on the taxable income in accordance with the relevant PRC income tax laws at a statutory rate of 33% (30% state income tax plus 3% local income tax) on PRC taxable income. There was no provision for PRC income taxes for the period from May 23, 2005 (date of establishment) to December 20, 2005.

Deferred tax asset consisted of net operating losses totalling $138,800 at December 20, 2005. Deferred tax liabilities were not significant at December 20, 2005.

The Company has operating loss carry forwards of $420,751 for the year ended December 20, 2005. Net operating loss generated in the PRC will expire on various dates through 2010.

Reconciliation between the provision for income tax computed by applying the PRC enterprise income rate of 33% to income before income taxes and the actual provision for income taxes is as follows for the period from March 23, 2005 (date of establishment) to December 20, 2005:

Net income before provision for income taxes	$	133,919
PRC statutory tax rate		33%
Income tax at statutory tax rate		44,193
Expenses not deductible for tax purposes		213
Effect of tax exemption		(44,406)
Provision for income taxes	$	—

PRC income taxes that would have been payable without the tax exemptions amounted to approximately $44,000 for the period from May 23, 2005 (date of establishment) to December 20, 2005.

Table of Contents

9. Related party transactions

Amounts due from (to) related parties were as follows at December 20, 2005:

Due from related parties:		
Due from directors	$	256,622
Due from minority shareholders		724,163
Total	$	980,785
Due to related parties:		
Due to directors	$	363,056
Due to minority shareholders		2,286,511
Total	$	2,649,567

All amounts due from related parties are non−interest bearing and are collectible on demand. Amounts due from related parties are expected to be collectible therefore no allowance for uncollectible amounts was considered necessary at December 20, 2005. Amounts due to minority shareholders represented considerations paid by these individuals in business combinations and are refundable by the Company. All amounts advanced or borrowed are non−interest bearing and are due on demand. Amounts due from minority shareholders were collected in full during 2006.

10. Commitments

(a) Capital expenditure

The Company entered into an agreement during the period from March 23, 2005 (date of establishment) to December 20, 2005 to purchase equipment totaling $59,958. Unexpended balance at December 20, 2005 was $38,568.

(b) Operating lease

The Company has operating lease agreements principally for its office spaces in the PRC. The leases expire in 2007 and are renewable upon negotiation. Rent expenses aggregated $34,680 for the period from March 23, 2005 (date of establishment) to December 20, 2005.

Future minimum lease payments under non−cancellable operating lease are as follows:

2006	$	84,520
2007		54,790
Total	$	139,310

(c) Other

The Company has a number of agreements to purchase advertising airtime from television stations. As of December 20, 2005, future minimum purchase commitments under the agreements totaled approximately $5,963,000.

Table of Contents

11. Segment information

The Company operates in one business segment in providing advertising placement services. All of the Company's identifiable assets are located in the PRC. During the period from March 23, 2005 (date of establishment) to December 20, 2005, the Company's chief decision maker was its General Manager.

12. Employee benefit plans

Employees of the Company and its subsidiaries located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The amounts to be contributed are determined based on 20% of the applicable payroll costs. Expenses paid by the Company to these defined contribution schemes were $1,361 for the period from March 23, 2005 (date of establishment) to December 20, 2005.

In addition, the Company is required by law to contribute approximately, 1.2% to 8% of applicable salaries for medical insurance benefits, unemployment, and other statutory benefits. The PRC government is directly responsible for the payment of the benefits to these employees. The amounts contributed to medical insurance benefits, unemployment, and other statutory benefits were de minimis for the period from March 23, 2005 (date of establishment) to December 20, 2005.

13. Statutory reserves

As stipulated by the relevant laws and regulations in the PRC, the Company is required to maintain non-distributable reserves which include a statutory surplus reserve and a statutory welfare reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of the profit after taxes as determined under PRC GAAP. The statutory welfare reserve allocations are determined annually at the discretion of the Company's board of directors. Once appropriated, these amounts are not available for future distribution to owners or shareholders. The statutory surplus reserve may be applied against prior year losses, if any, and may be applied to the purchase of capital assets upon the board of directors' approval.

There were no appropriations made to the statutory welfare reserve during the period from period March 23, 2005 (date of establishment) to December 20, 2005.

Table of Contents

Accord Group Investments Limited
Report of independent registered public accounting firm

To the Board of Directors and Shareholders of
Accord Group Investments Limited:

We have audited the accompanying consolidated balance sheet of Accord Group Investments Limited and its subsidiaries and affiliates (the "Company") as of December 31, 2005 and the related consolidated statements of operations, shareholders' deficiency, and cash flows for the period from August 19, 2005 (date Accord Group Investments Limited acquired Beijing Shiji Guangnian Advertising Co., Ltd.) to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and the consolidated results of its operations and its cash flows for the period from August 19, 2005 (date Accord Group Investments Limited acquired Beijing Shiji Guangnian Advertising Co., Ltd.) to December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Hong Kong
September 22, 2006

Table of Contents

Beijing Shiji Guangnian Advertising Co., Ltd.
Predecessor to Accord Group Investments Limited
Report of independent registered public accounting firm

To the Board of Directors and Owners of
Beijing Shiji Guangnian Advertising Co., Ltd.:

We have audited the accompanying balance sheets of Beijing Shiji Guangnian Advertising Co., Ltd. (Predecessor to Accord Group Investments Limited, the "Predecessor") as of August 18, 2005 and the related statements of operations, owner's deficiency, and cash flows for the period from February 1, 2005 (date of establishment) to August 18, 2005. These financial statements are the responsibility of the Predecessor's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Predecessor is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Predecessor's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Predecessor as of August 18, 2005 and the results of its operations and its cash flows for the period from February 1, 2005 (date of establishment) to August 18, 2005 in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Hong Kong
September 22, 2006

Table of Contents

Accord Group Investments Limited
Consolidated balance sheets

(In U.S. dollars)	(Predecessor) August 18, 2005	(Successor) December 31, 2005	(Successor) June 30, 2006
			(Unaudited)
Assets			
Current assets:			
Cash	$ 30,703	$ 237,648	$ 265,090
Accounts receivable	126,248	83,722	113,625
Prepaid expenses and other current assets	204,911	14,766	66,784
Amount due from a related party	118,110	—	12,100
Deferred tax assets	167,592	—	—
Total current assets	647,564	336,136	457,599
Property and equipment, net	39,003	137,697	135,141
Intangible assets, net	—	1,341,006	1,257,717
Rent deposits	22,967	69,326	—
Total assets	$ 709,534	$ 1,884,165	$ 1,850,457
Liabilities and owners'/shareholders' deficiency			
Current liabilities:			
Accounts payable	$ 116,716	$ 274,355	$ 1,104,495
Accrued expenses and other payables	20,483	73,708	54,767
Deferred revenue	267,674	626,994	496,584
Amounts due to related parties	958,419	1,883,357	2,458,949
Income tax payable	—	—	24,923
Total current liabilities	1,363,292	2,858,414	4,139,718
Deferred tax liability	—	442,561	415,072
Total liabilities	1,363,292	3,300,975	4,554,790
Commitments (Note 10)			
Minority interest	—	—	—
Owners'/ Shareholders' deficiency:			
Ordinary shares (par value $1; authorized 50,000 shares; issued and outstanding 100 as of December 31, 2005 and 100 (unaudited) as of June 30, 2006)	—	100	100
Registered capital	370,416	—	—
Accumulated deficit	(1,024,174)	(1,416,910)	(2,704,433)
Total owners'/shareholders' deficiency	(653,758)	(1,416,810)	(2,704,333)
Total liabilities and owners'/shareholders' deficiency	$ 709,534	$ 1,884,165	$ 1,850,457

See notes to consolidated financial statements

Table of Contents

Accord Group Investments Limited
Consolidated statements of operations

(In U.S. Dollars)	For the period from February 1, 2005 to August 18, 2005 (Predecessor)	For the period from February 1, 2005 to June 30, 2005 (Predecessor)	For the period from August 19, 2005 (Date Accord Group Investments Limited acquired Beijing Shiji Guangnian Advertising Co., Ltd.) to December 31, 2005	For the six months ended June 30, 2006
		(Unaudited)		(Unaudited)
Radio advertising revenue, net	$ 511,584	$ 402,143	$ 491,316	$ 626,757
Cost and expenses:				
Cost of revenue	1,457,839	1,145,702	872,925	1,337,018
Selling and distribution	84,474	64,941	622,382	255,123
General and administrative	161,220	101,621	272,006	334,321
Total cost and expenses	1,703,533	1,312,264	1,767,313	1,926,462
Loss from operations	(1,191,949)	(910,121)	(1,275,997)	(1,299,705)
Interest income	183	130	1,240	2,686
Loss before provision for income taxes (benefit)	(1,191,766)	(909,991)	(1,274,757)	(1,297,019)
Provision for income taxes (benefit)	(167,592)	—	142,153	(9,496)
Net loss	$ (1,024,174)	$ (909,991)	$ (1,416,910)	$ (1,287,523)

See notes to consolidated financial statements

Table of Contents

Accord Group Investments Limited
Consolidated statements of owners'/shareholders' deficiency

(In U.S. Dollars)	Ordinary shares Number of shares	Par value	Registered capital	Accumulated deficit	Total
Predecessor Entity— Beijing Shiji Guangnian Advertising Co., Ltd:					
Balance, February 1, 2005	—	$ —	$ 370,416	$ —	$ 370,416
Net loss		—	—	(1,024,174)	(1,024,174)
Balance, August 18, 2005	—	$ —	$ 370,416	$ (1,024,174)	$ (653,758)
Accord Group Investments Limited:					
Issuance of ordinary shares	100	$ 100	$ —	$ —	$ 100
Net loss		—	—	(1,416,910)	(1,416,910)
Balance, December 31, 2005	100	100	—	(1,416,910)	(1,416,810)
Net loss (unaudited)		—	—	(1,287,523)	(1,287,523)
Balance, June 30, 2006 (unaudited)	100	$ 100	$ —	$ (2,704,433)	$ (2,704,333)

See notes to consolidated financial statements

Table of Contents

Accord Group Investments Limited
Consolidated statements of cash flows

(in U.S. Dollars)	For the period from February 1, 2005 to August 18, 2005 (Predecessor)	For the period from February 1, 2005 to June 30, 2005 (Predecessor)	For the period from August 19, 2005 (Date Accord Group Investments Limited acquired Beijing Shiji Guangnian Advertising Co., Ltd.) to December 31, 2005	For the six months ended June 30, 2006
		(Unaudited)		(Unaudited)
Cash flows from operating activities:				
Net loss	$ (1,024,174)	$ (909,991)	$ (1,416,910)	$ (1,287,523)
Adjustment to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	3,115	1,909	81,059	118,387
Deferred income taxes	(167,592)	—	142,153	(34,419)
Changes in operating assets and liabilities:				
Accounts receivable	(126,248)	(267,317)	42,526	(29,903)
Rent deposit	(22,967)	(24,052)	(46,359)	69,326
Prepaid expenses and other current assets	(204,911)	(281,600)	190,145	(8,865)
Accounts payable	116,716	495,888	157,639	830,140
Accrued expenses and other payables	20,483	18,872	53,225	(18,941)
Deferred revenue	267,674	341,498	359,320	(130,410)
Income taxes payable	—	—	—	24,923
Net cash used in operating activities	(1,137,904)	(624,793)	(437,202)	(467,285)
Cash flows from investing activities:				
Purchases of property and equipment	(42,118)	(41,007)	(59,516)	(54,689)
Deposits paid for purchase of property and equipment	—	—	(43,153)	—
Acquisition of a subsidiary, net of cash received	—	—	(265,629)	—
Acquisition of additional interest in a subsidiary	—	—	—	(14,076)
Amount due from a related party	(118,110)	—	118,110	(12,100)
Cash used in investing activities	(160,228)	(41,007)	(250,188)	(80,865)
Cash flows from financing activities:				
Amounts due to related parties	958,419	296,333	924,938	575,592
Capital contributions	370,416	370,416	—	—
Issues of ordinary shares	—	—	100	—
Cash provided by financing activities	1,328,835	666,749	925,038	575,592
Net increase in cash	30,703	949	237,648	27,442
Cash, beginning of the period	—	—	—	237,648
Cash, end of the period	$ 30,703	$ 949	$ 237,648	$ 265,090

See notes to consolidated financial statements

Table of Contents

Accord Group Investments Limited
Notes to consolidated financial statements
(In U.S. dollars)

1. Organization and principal activities

Accord Group Investments Limited ("Accord") was established in the British Virgin Islands (the "BVI") on June 15, 2005. Accord and its subsidiaries and consolidated variable interest entity ("VIE", collectively the "Company") place advertisements, provide advertising services to customers in the PRC and have the exclusive rights to sell advertising for and the rights to provide content to the EasyFM radio stations of Beijing and Shanghai. The Company also provides design and production services to its customers. To date, revenue from design and production services has not been material.

On January 23, 2006, Xinhua Finance Limited ("XFL") acquired 19% equity interest of the Company from and transferred all its 19% beneficial interests in the Company to Xinhua Finance Media Limited ("XFM"). On September 22, 2006, XFM acquired an additional 61% beneficial interest in the Company. On November 1, XFM obtained the remaining 20% equity in Accord from the selling shareholder by issuing 125,053 of its class A shares. XFM has agreed to provide continuous financial and operational support to the Company.

The following is a summary and description of Accord's consolidated VIEs and its majority-owned subsidiaries:

- Great Triumph Investments Ltd. ("Great Triumph") was incorporated in the British Virgin Islands (the "BVI") on June 13, 2005 and acted as an investment holding company. The entire equity interest of Great Triumph was acquired by Accord on July 8, 2005.

- New China Media Co., Ltd. ("New China") was incorporated in the BVI by Great Triumph on August 18, 2005. It is a wholly-owned investment holding company.

- In addition, Accord is the primary beneficiary of Beijing Shiji Guangnian Advertising Co., Ltd. ("Shiji Guangnian" or the "Predecessor"), a variable interest entity ("VIE") through a number of agreements establishing effective control, including an equity pledge agreement, a subrogation agreement and an option agreement dated August 18, 2005 with the VIE's equity owner. A variable interest entity ("VIE") is an entity in which equity investors generally do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. A VIE is consolidated by its primary beneficiary when it is determined that the primary beneficiary will absorb the majority of the VIE's expected losses and/or expected residual returns. Consistent with the provisions of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51" (as revised, 'FIN 46R"). Shiji Guangnian is a predecessor to Accord and Shiji Guangnian is included in the consolidated financial statements of Accord.

  Shiji Guangnian, was established in the PRC on February 1, 2005 by two PRC citizens for a term of 20 years and provides advertising placement services to customers in Beijing. Through a number of agreements establishing effective control, including an equity pledge agreement, a subrogation agreement and an option agreement dated August 19, 2005, Shiji Guangnian is accounted for as an 80%-owned VIE of Accord and is included in the

Table of Contents

consolidated financial statements of Accord. As of December 31, 2005, the equity interest holder in Shiji Guangnian maintains a 20% economic interest that is recorded as minority interest. On March 23, 2006 and September 22, 2006, XFM acquires the remaining 3.8% and 16.2% equity interest respectively, in Shiji Guangnian through a number of agreements.

Minority interest in the net assets consists of the amount of those interests at the date of the acquisition and the minority's share of changes in equity since the date of the acquisition. Without the binding obligation from the minority shareholder to make an additional investment to cover the losses, minority shareholder would only share the losses of the relevant subsidiary up to its cost of investment.

The following financial statement amounts and balances of Shiji Guangnian as of December 31, 2005 and covering the period from August 19, 2005 (effective date of the nomination and equity pledge agreements) to December 31, 2005 were included in the accompanying consolidated financial statements:

Total assets (excluding goodwill and intangible assets)	$	1,866,400
Total liabilities		2,962,575
Total net revenues		491,316
Total cost and expenses		1,767,313
Net loss		1,416,910

2. Summary of principal accounting policies

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of consolidation

The Predecessor's financial statements represented the financial statements of Shiji Guangnian.

The consolidated financial statements include the financial statements of the Company, its wholly–owned subsidiaries and a variable interest entity, Shiji Guangnian. VIEs are entities in which equity investors generally do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the Company when it is determined that it will, as the primary beneficiary, absorb the majority of the VIEs expected losses and/or expected residual returns

All inter–company transactions and balances have been eliminated upon consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's

Table of Contents

consolidated financial statements included useful lives of property and equipment and intangible assets and impairment of long–lived assets.

(d) Revenue recognition

Advertising revenue is recognized when advertisements are aired on radio.

Payments received in advance are deferred until earned and are reported as deferred revenue in the consolidated balance sheets.

Revenues are recorded net of applicable business taxes totaling $nil for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to August 18, 2005; (unaudited) $nil for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005; $377 for the period from August 19, 2005 (date the Company acquired Shiji Guangnian) to December 31, 2005; and (unaudited) $nil for the period from January 1, 2006 to June 30, 2006.

The Company extends credit based upon an evaluation of the customers' financial condition and collateral is not required from such customers. Allowances for estimated credit losses, rate adjustments and discounts are generally established based on historical experience.

(e) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight–line basis over the following estimated useful lives:

Leasehold improvements	Lesser of 5 years or lease term
Furniture, fixtures and equipment	5 years

(f) Intangible assets

Intangible assets consist of exclusive advertising agreement and customer base arising from the acquisition of Shiji Guangnian as described in Note 3, which are carried at cost less accumulated amortization. Amortization is computed using the straight–line method over the intangible assets' useful lives.

(g) Impairment of long–lived assets

The Company evaluates its long–lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss as the excess of carrying amounts over fair value of the assets. There were no impairment losses recorded for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to August 18, 2005; the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005 (unaudited); the period from August 19, 2005 (date the Company acquired Shiji

Table of Contents

Guangnian) to December 31, 2005; and the period from January 1, 2006 to June 30, 2006 (unaudited).

(h) Income taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non–current based on their characteristics.

(i) Foreign currency translation

Functional currencies of the Company and its subsidiaries, including Shiji Guangnian, are either Renminbi ("RMB") or Hong Kong dollars ("HKD"). Transactions denominated in other currencies are translated into RMB or HKD at the average rates of exchange prevailing during each period. Monetary assets and liabilities denominated in other currencies are translated into RMB or HKD at rates of exchange in effect on the balance sheet dates. Nonmonetary assets and liabilities are remeasured into RMB or HKD at historical exchange rates. Transactions denominated in HKD were not material for the period.

The Company and Shiji Guangnian use the U.S. dollar as its reporting currency. Accordingly, assets and liabilities are translated using exchange rates in effect at the balance sheet date and average exchange rates for the period are used for revenue and expense transactions.

Currency transaction gains and losses are recorded in the consolidated statement of operations. Translation adjustments are recorded in accumulated other comprehensive income, a component of shareholders' equity.

(j) Concentration of credit risk

The following customers contributed 10% or more of the Company's revenues:

	For the period from February 1, 2005 to August 18, 2005 (Predecessor)	For the period from February 1, 2005 to June 30, 2005 (Predecessor)	For the period from August 19, 2005 (Date Accord Group Investments Limited acquired Beijing Shiji Guangnian Advertising Co., Ltd.) to December 31, 2005	For the six–month period ended June 30, 2006
			(Unaudited)	(Unaudited)
Customer A	$ 85,497	*	*	*
Customer B	75,194	*	*	*
Customer C	*	$ 75,935	*	*

* *Represents less than 10% of revenue.*

Table of Contents

Three customers, three customers and four customers as of August 18, 2005 (Predecessor Entity— Shiji Guangnian), December 31, 2005 and (unaudited) June 30, 2006 representing an aggregate of 100%, 100% and (unaudited) 93% of the Company's accounts receivable balance at August 18, 2005 (Predecessor Entity— Shiji Guangnian), December 31, 2005 and (unaudited) June 30, 2006, respectively. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts and such loss have been within management's expectations.

All of the Company's revenue for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to August 18, 2005; the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005 (unaudited); the period from August 19, 2005 (date the Company acquired Shiji Guangnian) to December 31, 2005; and the period from January 1, 2006 to June 30, 2006 (unaudited) were generated from the PRC.

(k) Fair value of financial instruments

The carrying amounts of accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other payables, deferred revenue and amounts due from (to) related parties approximate their fair values due to the short-term maturity of these instruments.

(l) Unaudited interim financial information

The financial information with respect to the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005 and the six-month period ended June 30, 2006 is unaudited and has been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, such unaudited financial information contains all adjustments, consisting of only normal recurring adjustment, necessary for a fair presentation of the results of such periods, The results of operations for the six-month period ended June 30, 2006 are not necessarily indicative of results to be expected for the full year.

(m) Recent accounting pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004), *"Share-Based Payments"* or SFAS 123R. This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, *"Accounting for Stock Issued to Employees"* to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award— the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS 123R is effective for the fiscal year beginning January 1, 2006. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

In May 2005, the FASB issued SFAS No. 154, *"Accounting Changes and Error Corrections,"* which replaces Accounting Principles Board Opinions No. 20 *"Accounting Changes"* and SFAS No. 3,

Table of Contents

"Reporting Accounting Changes in Interim Financial Statements— An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidancc on the accounting for and reporting of accounting changes and error corrections. It establishcs rctrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes— an interpretation of FASB Statement No. 109"* ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions in FASB Statement No. 109, *"Accounting for Income Taxes."* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 in the first quarter of 2007. The Company has not determined its impact, if any, of FIN 48 on its financial position, results of operations and cash flows

In September, 2006 the FASB issued FASB Statement No. 157, ("SFAS 157"), *"Fair Value Measurement."* SFAS 157 addresses standardizing the measurement of fair value for companies who are required to use a fair value measure of recognition for recognition or disclosure purposes. The FASB defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure date." SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, of SFAS 157 on its financial position, results of operations and cash flows.

3. Acquisition

On August 19, 2005, the Company became the primary beneficiary of Shiji Guangnian through a number of loan agreements, equity pledge agreements, exclusive equity purchase option agreements and subrogation agreements. Accordingly, Shiji Guangnian is considered to be an 80%–owned VIE of the Company and is accounted for similar to a purchase. All assets acquired and liabilities assumed are stated at fair value. Purchase price for the acquisition consisted of $296,332 in cash payment. The primary asset acquired was radio, broadcasting, and advertising agency operations in the PRC which would enhance the Company's geographic reach and operating scope. The Company has consolidated the operating results of Shiji Guangnian effective on the date of nomination and equity pledge agreement.

Table of Contents

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of nomination and equity pledge agreement. The table also reflects a non–cash activity for purposes of the consolidated statement of cash flows:

Assets acquired:		
Cash	$	30,703
Accounts receivable		126,248
Prepaid expenses and other current assets		204,911
Amount due from a related party		118,110
Property and equipment, net		39,003
Rent deposits		22,967
Deferred tax assets		167,592
Total		709,534
Liabilities assumed:		
Accounts payable		116,716
Accrued expenses and other payables		20,483
Deferred revenue		267,674
Amounts due to related parties		958,419
Deferred tax liability		468,000
Total		1,831,292
Net liabilities		(1,121,758)
Intangible assets		1,418,090
Net assets acquired	$	296,332
Cash consideration	$	296,332

		Amortization period (Years)
Intangible assets comprised of:		
Exclusive advertising agreement	1,402,546	7
Customer base	15,544	3
Total	1,418,090	

80% of intangible assets relating to the acquisition of Shigi Guangnian were recognized.

Table of Contents

The following pro forma information summarizes the effect of the acquisition, if the acquisitions had occurred as of February 1, 2005 (date of establishment of Shiji Guangnian). The pro forma information is presented for informational purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company consummated the acquisitions on February 1, 2005, nor is it necessarily indicative of future results of operations of the combined enterprise:

		For the period from February 1, 2005 to December 31, 2005
Pro forma revenues	$	1,002,900
Pro forma net income from operations		(2,579,278)
Pro forma net loss		(2,542,536)

On June 21, 2006, based on the same conditions of the nomination and equity pledged agreements dated August 19, 2005, the Company acquired another 3.8% of the beneficial interest of Shiji Guangnian at a price of (unaudited) $14,076 which resulted in an additional intangible assets of (unaudited) $21,006 and the related deferred tax liability of $6,930. The purchase price for this acquisition was paid by XFL on behalf of the Company. The Company's ownership of Shiji Guangnian increased to 83.8% as a result of this transaction. In September, 2006, the Company also acquired the remaining 16.2% of the equity of Shiji Guangnian at a consideration of $60,007, through the VIE equity owner.

4. Property and equipment, net

Property and equipment, net consisted of the following:

		At August 18, 2005 (Predecessor)		At December 31, 2005		At June 30, 2006
						(Unaudited)
Leasehold improvements	$	—	$	31,031	$	79,881
Furniture, fixtures and equipment		42,118		70,603		76,442
Total		42,118		101,634		156,323
Less: accumulated depreciation and amortization		3,115		7,090		21,182
		39,003		94,544		135,141
Deposits paid for property and equipment		—		43,153		—
Property and equipment, net	$	$39,003	$	137,697	$	135,141

Depreciation and amortization expenses were $3,115 for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to August 18, 2005; (unaudited) $1,909 for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005;

Table of Contents

$3,975 for the period from August 19, 2005 (date the Company acquired Shiji Guangnian) to December 31, 2005; and (unaudited) $14,092 for the six–month period ended June 30, 2006.

5. Intangible assets, net

Intangible assets, net consisted of the following:

		At December 31, 2005		At June 30, 2006
				(Unaudited)
Exclusive advertising agreement	$	1,402,546	$	1,423,322
Customer base		15,544		15,774
Total		1,418,090		1,439,096
Less: accumulated amortization		77,084		181,379
Total	$	1,341,006	$	1,257,717

Amortization expense was $77,084 for the period from August 19, 2005 (date the Company acquired Shiji Guangnian) to December 31, 2005; and (unaudited) $104,295 six–month period ended June 30, 2006, respectively. The Company will record amortization expense of $208,590, $208,590, $206,647, $203,332, and $203,332 in the years ending 2006 through 2010, respectively.

6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following:

		At August 18, 2005 (Predecessor)		At December 31, 2005		At June 30, 2006
						(Unaudited)
Prepaid expenses	$	195,114	$	8,174	$	13,483
Rent deposits		—		—		49,937
Advance to suppliers		—		617		2,592
Other current assets		9,797		5,975		772
Total	$	204,911	$	14,766	$	66,784

Table of Contents

7. Accrued expenses and other payables

Accrued expenses and other payables consisted of the following:

		At August 18, 2005 (Predecessor)		At December 31, 2005		At June 30, 2006
						(Unaudited)
Accrued salary and welfare	$	13,874	$	68,821	$	38,081
Advance from customers		3,087		—		12,360
Other taxes payable		3,516		1,172		1,239
Other		6		3,715		3,087
Total	$	20,483	$	73,708	$	54,767

8. Provision for income taxes

Under the current BVI law, income from Accord and Great Triumph is not subject to taxation.

All other subsidiaries of the Company were established in the PRC and are subject to PRC Enterprises Income Tax on the taxable income in accordance with the relevant PRC income tax laws at a statutory rate of 33% (30% state income tax plus 3% local income tax) on PRC taxable income.

Provision for income taxes comprises of the following:

		For the period from February 1, 2005 to August 18, 2005 (Predecessor)		For the period from February 1, 2005 to June 30, 2005 (Predecessor)		For the period from August 19, 2005 (Date Accord Group Investments Limited acquired Beijing Shiji Guangnian Advertising Co. Ltd.) to December 31, 2005		For the six months ended June 30, 2006
				(Unaudited)				(Unaudited)
Current Tax	$	—	$	—	$	—	$	24,923
Deferred Tax	$	(167,592)	$	—	$	142,153	$	(34,419)
Total	$	(167,592)	$	—	$	142,153	$	(9,496)

Table of Contents

The principal components of the deferred income tax assets are as follows:

	At August 18, 2005 (Predecessor)	At December 31, 2005	At June 30, 2006 (Unaudited)
Deferred tax assets:			
Net operating losses	$ 365,147	$ 563,670	$ 918,954
Less: valuation allowance	(197,555)	(563,670)	(918,954)
Deferred tax assets, net	$ 167,592	$ —	$ —
Deferred tax liability:			
Intangible assets	$ —	$ 442,561	$ 415,072
Total	$ 167,592	$ (442,561)	$ (415,072)

Due to the uncertainty of the level of PRC statutory income and our lack of operating history, management does not believe the Group will generate taxable PRC statutory income in the near future and does not believe that it is more likely than not that all of the deferred tax assets will be realized. As management does not believe that it is more likely than not that all of the deferred tax assets will be realized, a valuation allowance has been established for certain portions of deferred tax assets at August 18, 2005 and for the full amount of deferred tax assets at December 31, 2005 and (unaudited) June 30, 2006. The Company has operating loss carry forwards of $1,106,506 and $1,708,092 as of August 18, 2005 and December 31, 2005, respectively. The net operating loss carry forwards for the PRC subsidiaries expire on various dates through 2010.

Table of Contents

Reconciliation between the provision for income taxes computed by applying the PRC enterprise income rate of 33% to income before income taxes is as follows:

	For the period from February 1, 2005 to August 18, 2005 (Predecessor)	For the period from August 19, 2005 (Date Accord Group Investments Limited acquired Beijing Shiji Guangnian Advertising Co., Ltd.) to December 31, 2005
Net loss before provision for income taxes	$ (1,191,766)	$ (1,274,757)
PRC statutory tax rate	33%	33%
Income tax at statutory tax rate	(393,283)	(420,670)
Expenses not deductible for tax purposes:		
Entertainment	1,184	8,862
Certain salaries and employee benefits	26,952	34,984
Promotion fees	—	144,810
Effect of different income tax rate in other jurisdiction	—	9,419
Change in valuation allowance	197,555	366,115
Other	—	(1,367)
Provision for income taxes (benefit)	$ (167,592)	$ 142,153

9. Related party transactions

Amounts due from (to) related parties were as follows:

	At August 18, 2005 (Predecessor)	At December 31, 2005	At June 30, 2006
			(Unaudited)
Due from related party			
Due from an affiliate	$ 118,110	$ —	$ 12,100
Due to related parties:			
Due to a shareholder	$ (403,652)	$ (1,579,538)	$ (1,579,538)
Due to affiliates	(554,767)	(303,819)	(879,411)
Total	$ (958,419)	$ (1,883,357)	$ (2,458,949)

Amounts due from (to) related parties were non–interest bearing and payable on demand. Amounts due from related parties are expected to be collectable therefore no allowance for

Table of Contents

amounts due from related parties was considered necessary as of August 18, 2005, December 31, 2005 and (unaudited) June 30, 2006.

10. Commitments

(a) Capital purchase

The Company has entered into agreements during the period from August 19, 2005 (Date Accord Group Investments Limited acquired Beijing Shiji Guangnian Advertising Co., Ltd.) to December 31, 2005 for purchase of leasehold improvements for a total of $4,445. Unexpended balance at December 31, 2005 was $4,445.

There was no significant unexpended balance at June 30, 2006 (unaudited).

(b) Operating leases

The Company has operating lease agreements principally for its office spaces in the PRC. These leases expire through August 2007 and are renewable upon negotiation. Rent expenses were $131,387 for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to August 18, 2005; (unaudited) $72,361 for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005; $165,376 for the period from August 19, 2005 (date the Company acquired Shiji Guangnian) to December 31, 2005; and (unaudited) $169,965 for the period from January 1, 2006 to June 30, 2006.

Future minimum lease payments under non−cancelable operating lease agreements are as follow at December 31, 2005:

2006	$	257,414
2007	$	114,891
Total	$	372,305

Future minimum lease payments under non−cancelable operating lease agreements are as follow at June 30, 2006 (unaudited):

Twelve months ending June 30, 2007	$	171,891

(c) Other

The Company has entered an agreement to purchase all advertising airtime from EasyFM stations in Beijing and Shanghai. As of August 18, 2005 (Predecessor Entity— Beijing Shiji Guangnian Advertising Co., Ltd.), December 31, 2005 and June 30, 2006, future minimum purchase commitments under the agreement totaled approximately $2,071,243, $1,767,708, and (unaudited) $911,121.

Table of Contents

11. Segment information

The Company and Shiji Guangnian (Predecessor entity) principally operate in one segment in providing advertising placement service. All of the identifiable assets of the Company and Shiji Guangnian are located in the PRC.

During the period from February 1, 2005 (date of establishment of Shiji Guangnian) to August 18, 2005; and (unaudited) the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005, the chief decision maker of Shiji Guangnian was its General Manager.

During the period from August 19, 2005(date the Company acquired Shiji Guangnian) to December 31, 2005; and (unaudited) for the six−month period ended June 30, 2006, the chief decision maker of Company was its General Manager.

12. Employee benefit plans

Employees of the Company located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The amounts to be contributed are determined based on 20% of the applicable payroll costs. The amounts paid by the Company to these defined contribution schemes were $15,753 for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to August 18, 2005; (unaudited) $5,602 for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005; $16,137 for the period from August 19, 2005 (date the Company acquired Shiji Guangnian) to December 31, 2005; and (unaudited) $25,206 for the six−month period ended June 30, 2006.

In addition, the Company is required by law to contribute approximately 1.2% to 10% of applicable salaries for medical insurance benefits, housing funds, unemployment, and other statutory benefits. The PRC government is directly responsible for the payment of the benefits to these employees. The amounts contributed for medical insurance benefits were $9,261 for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to August 18, 2005; (unaudited) $3,409 for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005; $4,737 for the period from August 19, 2005 (date the Company acquired of Shiji Guangnian) to December 31, 2005; and (unaudited) $9,576 for the six−month period ended June 30, 2006. The amounts contributed for other benefits were not material for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to August 18, 2005; (unaudited) the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005; the period from August 19, 2005(date the Company acquired Shiji Guangnian) to December 31, 2005; and (unaudited) the six−month period ended June 30, 2006.

Table of Contents

13. Statutory reserves

As stipulated by the relevant laws and regulations in the PRC, the Company is required to maintain non−distributable reserves which include a statutory surplus reserve and a statutory welfare reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of profit after taxes as reported in the Company's PRC statutory financial statements. The statutory welfare reserve allocations are determined annually at the discretion of the Company's board of directors. Once appropriated, these amounts are not available for future distribution to owners or shareholders. The statutory surplus reserve may be applied against prior year losses, if any, and may be applied to the purchase of capital assets upon the board of directors' approval. There were no contributions to the statutory surplus reserve and the statutory welfare reserve for the period from February 1, 2005 (date of establishment of Shiji Guangnian) to August 18, 2005; (unaudited) the period from February 1, 2005 (date of establishment of Shiji Guangnian) to June 30, 2005; the period from August 19, 2005 (date the Company acquired Shiji Guangnian) to December 31, 2005; and (unaudited) the six−month period ended June 30, 2006.

Table of Contents

Report of independent registered public accounting firm

To the Board of Directors and Owners' of
Beijing Perspective Orient Movie and Television Intermediary Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Beijing Perspective Orient Movie and Television Intermediary Co., Ltd. and its subsidiary (the "Company") as of December 31, 2004 and 2005 and the related consolidated statements of operations, owners' equity and comprehensive loss, and cash flows for the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and 2005 and the consolidated results of its operations and its cash flows for the two years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Hong Kong
September 22, 2006

Table of Contents

Beijing Perspective Orient Movie and Television Intermediary Co., Ltd. Consolidated balance sheets

(In U.S. dollars)	December 31, 2004	December 31, 2005	June 30, 2006 (Unaudited)
Assets			
Current assets:			
Cash	$ 453,333	$ 296,359	$ 1,764,832
Accounts receivable	322,349	61,897	13,194
Prepaid expenses and other current assets	140,460	125,278	76,427
Amounts due from related parties	1,821,339	1,863,158	19,215
Deferred tax assets	93,252	—	—
Total current assets	2,830,733	2,346,692	1,873,668
Property and equipment, net	2,117,491	1,751,133	1,614,480
Intangible assets, net	846,638	740,832	679,096
Investment in an affiliate	—	222,463	—
Total	$ 5,794,862	$ 5,061,120	$ 4,167,244
Liabilities and owners' equity			
Current liabilities:			
Accounts payable	$ 93,329	$ 51,930	$ 56,932
Accrued expenses and other payables	736,101	658,574	1,753,007
Amounts due to related parties	777,931	1,214,864	52,093
Deferred revenue	735,193	199,877	201,465
Total liabilities	2,342,554	2,125,245	2,063,497
Commitments (Note 10)			
Owners' equity:			
Registered capital	12,094,823	12,094,823	12,094,823
Accumulated deficits	(8,642,515)	(9,230,986)	(10,063,114)
Accumulated other comprehensive income	—	72,038	72,038
Total owners' equity	3,452,308	2,935,875	2,103,747
Total	$ 5,794,862	$ 5,061,120	$ 4,167,244

See notes to consolidated financial statements

Table of Contents

Beijing Perspective Orient Movie and Television Intermediary Co., Ltd.
Consolidated statements of operations

(In U.S. Dollars)	Year ended December 31, 2004	Year ended December 31, 2005	Six months ended June 30, 2005 (Unaudited)	Six months ended June 30, 2006 (Unaudited)
Advertising revenue, net:				
Third parties	1,762,752	2,731,610	$ 1,121,679	$ 711,133
Related parties	68,940	3,704	—	—
Total revenue	$ 1,831,692	$ 2,735,314	$ 1,121,679	$ 711,133
Cost and expenses:				
Cost of advertising	1,731,003	2,092,003	583,229	934,063
Selling	605,839	497,094	263,797	123,044
General and administrative	546,144	626,766	538,135	279,540
Total cost and expenses	2,882,986	3,215,863	1,385,161	1,336,647
Other operating income	29,040	—	—	—
Loss from operations	(1,022,254)	(480,549)	(263,482)	(625,514)
Interest income	3,441	1,878	748	2,409
Loss before income tax and equity in earnings of an affiliate	(1,018,813)	(478,671)	(262,734)	(623,105)
Income tax expense	—	95,197	53,901	—
Loss before equity in earnings of an affiliate	(1,018,813)	(573,868)	(316,635)	(623,105)
Equity in earnings of an affiliate	—	213	213	—
Net loss	$ (1,018,813)	$ (573,655)	$ (316,422)	$ (623,105)

See notes to consolidated financial statements

Table of Contents

Beijing Perspective Orient Movie and Television Intermediary Co., Ltd.
Consolidated statements of owners' equity and comprehensive loss

(In U.S. dollars)	Registered capital	Accumulated deficits	Accumulated other comprehensive income	Total	Comprehensive loss
Balance, January 1, 2004	$ 12,094,823	$ (6,989,265)	$ —	$ 5,105,558	
Deemed distribution	—	(634,437)	—	(634,437)	
Net loss	—	(1,018,813)	—	(1,018,813)	$ (1,018,813)
Balance, December 31, 2004	12,094,823	(8,642,515)	—	3,452,308	
Deemed distribution	—	(14,816)	—	(14,816)	
Foreign currency translation gain	—	—	72,038	72,038	$ 72,038
Net loss	—	(573,655)	—	(573,655)	(573,655)
Balance, December 31, 2005	12,094,823	(9,230,986)	72,038	2,935,875	$ (501,617)
Deemed distribution (unaudited)	—	(209,023)	—	(209,023)	
Net loss (unaudited)	—	(623,105)	—	(623,105)	$ (623,105)
Balance, June 30, 2006 (unaudited)	$ 12,094,823	$ (10,063,114)	$ 72,038	$ 2,103,747	

See notes to consolidated financial statements

Table of Contents

Beijing Perspective Orient Movie and Television Intermediary Co., Ltd.
Consolidated statements of cash flows

(In U.S. dollars)	Year ended December 31, 2004	Year ended December 31, 2005	Six months ended June 30, 2005 (Unaudited)	Six months ended June 30, 2006 (Unaudited)
Cash flows from operating activities:				
Net loss	$ (1,018,813)	$ (573,655)	$ (316,422)	$ (623,105)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization	505,752	522,876	262,006	258,815
Loss on disposal of property and equipment	—	37,397	25,618	—
Loss on dissolution of an equity method affiliate	—	—	—	213
Equity in earnings of an affiliate	—	(213)	(213)	—
Deferred income taxes	—	95,197	53,901	—
Changes in operating assets and liabilities:				
Accounts receivable	(207,930)	252,362	237,212	(160,320)
Prepaid expenses and other current assets	(66,255)	18,113	(50,272)	48,851
Accounts payable	(33,380)	(43,346)	(24,441)	5,002
Accrued expenses and other payables	50,409	15,244	104,321	1,094,433
Deferred revenue	722,174	(535,316)	(661,202)	1,588
Cash (used in) provided by operating activities	(48,043)	(211,341)	(369,492)	625,477
Cash flows from investing activities:				
Purchases of property and equipment	(61,818)	(42,185)	(29,799)	(60,426)
Amounts due from related parties	71,520	(3,814)	272,570	1,843,943
Proceeds from sale of property and equipment	—	15,928	—	—
Proceeds from dissolution of an affiliate	—	—	—	222,250
Capital contribution to an equity method affiliate	—	(222,250)	(222,250)	—
Cash provided by (used in) investing activities	9,702	(252,321)	20,521	2,005,767
Cash flows from financing activities:				
Amount due to a related party	205,514	297,228	—	(1,162,771)
Cash provided by (used in) financing activities	205,514	297,228	—	(1,162,771)
Effect of exchange rate changes	—	9,460	9,460	—
Net increase (decrease) in cash	167,173	(156,974)	(339,511)	1,468,473
Cash, beginning of the year/period	286,160	453,333	453,333	296,359
Cash, end of the year/period	$ 453,333	$ 296,359	$ 113,822	$ 1,764,832

See notes to consolidated financial statements

Table of Contents

Beijing Perspective Orient Movie and Television Intermediary Co., Ltd.
Notes to consolidated financial statements
(In U.S. dollars)

1. Organization and principal activities

Beijing Perspective Orient Movie and Television Intermediary Co., Ltd. ("Beijing Perspective") was established in the People's Republic of China ("PRC") on September 25, 2000 for a term of 20 years. Beijing Perspective and its subsidiary (collectively the "Company") are engaged in the production and syndication of financial television programs under the Fortune China name and earn revenues by selling advertising time and sponsorship rights at the time the programs are broadcasted. On July 28, 2006, Beijing Century Media Culture Co., Ltd., a company controlled by Xinhua Finance Media Limited ("XFM"), acquired 51% equity interest of Beijing Perspective. XFM has agreed to provide continuous financial and operational support to Beijing Perspective.

Beijing Perspective's majority–owned subsidiary, Beijing Perspective Orient Advertising Co., Ltd. ("Perspective Advertising"), was established together with one of its employees for a term of 20 years on August 6, 2001 where Beijing Perspective holds an 80% equity interest.

2. Summary of principal accounting policies

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its majority–owned subsidiary. All significant intercompany transactions have been eliminated on consolidation. Investment in an affiliate representing ownership of at least 20%, but less than 50%, is accounted for under the equity method. The Company's share of earnings of the equity investments is included in accompanying consolidated statements of operations.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements included valuation of deferred tax assets, allowance for trade receivables, useful lives of property and equipment, and impairment of long–lived assets and intangible assets.

(d) Revenue recognition
Advertising sales revenues are recognized when advertisements are broadcasted. Payments received in advance are deferred until earned and such amounts are reported as deferred revenue on the accompanying consolidated balance sheet.
Revenues are recorded net of applicable business taxes totaling $67,350 and $98,118 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $44,501 and (unaudited) $23,968 for the six−month periods ended June 30, 2005 and 2006, respectively.
The Company extends credit based upon an evaluation of the customers' financial condition and collateral is not required from such customers. Allowances for estimated credit losses, rate adjustments and discounts are generally established based on historical experience.
(e) Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight−line basis over the following estimated useful lives:

Leasehold improvements	Lesser of 5 years or lease term
Furniture, fixtures and equipment	5 years
Motor vehicles	10 years

(f) Intangible assets
Intangible assets, which consist of trademarks, are valued at cost less accumulated amortization. Amortization is computed using the straight−line method over their expected useful lives of 10 years.
(g) Impairment of long−lived assets
The Company evaluates its long−lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss as the excess of carrying amounts over fair value of the assets. There were no impairment losses during the years ended December 31, 2004 and 2005 and (unaudited) the six months periods ended June 30, 2005 and 2006.
(h) Income taxes
Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will

Table of Contents

not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non−current based on their characteristics.

(i) Foreign currency translation

The functional currency of the Company is Renminbi ("RMB"). Transactions dominated in other currencies are translated into RMB at the average rates of exchange prevailing during each period. Monetary assets and liabilities denominated in other currencies are translated into RMB at rates of exchange in effect on the balance sheet dates. Nonmonetary assets and liabilities are remeasured into RMB at historical exchange rates.

The Company uses the U.S. dollar as its reporting currency. Accordingly, assets and liabilities are translated using exchange rates in effect at each balance sheet date and average exchange rates for the period are used for revenue and expense transactions.

Currency transaction gains and losses are recorded in the statement of operations. Translation adjustments are recorded in accumulated other comprehensive income, a component of owners' equity.

(j) Concentration of credit risk

The following customers contributed 10% or more of the Company's revenues:

	Year ended December 31,		Six months ended June 30,	
	2004	2005	2005	2006
			(Unaudited)	(Unaudited)
Customer A	544,010	*	*	85,196
Customer B	456,309	*	*	142,944
Customer C	210,469	*	*	133,331
Customer D	*	355,550	120,650	179,096
Customer E	*	296,292	205,272	*
Customer F	*	*	175,948	*
Customer G	*	*	*	89,548

* *Represents less than 10% of revenue.*

Three customers, two customers, (unaudited) two customers and (unaudited) five customers accounted for 10% or more of the Company's accounts receivable balance, representing an aggregate of 58%, 49%, (unaudited) 94% and (unaudited) 36% of the Company's accounts receivable balances at December 31, 2004, December 31, 2005, June 30, 2005 and June 30, 2006, respectively. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. No allowance for doubtful accounts was considered necessary at December 31, 2004, December 31, 2005 and (unaudited) June 30, 2006 as accounts receivable balances were expected to be collectible. Historical bad debts have not been material.

Table of Contents

(k) Unaudited interim financial information

The financial information with respect to the six–month periods ended June 30, 2005 and 2006 is unaudited and has been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, such unaudited financial information contains all adjustments, consisting of only normal recurring adjustment, necessary for a fair presentation of the results of such periods. The results of operations for the six–month period ended June 30, 2006 are not necessarily indicative of results to be expected for the full year.

(l) Recent accounting pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "*Share–Based Payments*" or SFAS 123R. This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, "*Accounting for Stock Issued to Employees*" to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant–date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award— the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS 123R is effective for the fiscal year beginning January 1, 2006. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which replaces Accounting Principles Board Opinions No. 20 "*Accounting Changes*" and SFAS No. 3, "*Reporting Accounting Changes in Interim Financial Statements— An Amendment of APB Opinion No. 28.*" SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes— an interpretation of FASB Statement No. 109*" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions in FASB Statement No. 109, "*Accounting for Income Taxes.*" FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 in the first quarter of 2007. The Company has not determined its impact, if any, of FIN 48 on its financial position, results of operations and cash flows

In September, 2006 the FASB issued FASB Statement No. 157, ("SFAS 157"), "*Fair Value Measurement.*" SFAS 157 addresses standardizing the measurement of fair value for companies who are required to use a fair value measure of recognition for recognition or disclosure purposes. The FASB defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the

Table of Contents

measure date." SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, of SFAS 157 on its financial position, results of operations and cash flows.

3. Investment in an affiliate

On July 4, 2005, the Company and two other independent third parties formed a limited liability company, Beijing JingShi Orient Culture and Communications Co., Ltd. ("Beijing Orient"), in the PRC where the Company contributed $222,250 in cash for a 30% equity interest.
In June 2006, Beijing Orient was dissolved and the initial investment cost was returned to the Company, resulting in a loss of $213.

4. Property and equipment, net

Property and equipment, net consisted of the following:

	At December 31, 2004	At December 31, 2005	At June 30, 2006
			(Unaudited
Leasehold improvements	2,919,034	2,952,140	3,009,133
Furniture, fixtures and equipment	133,834	140,262	143,695
Motor vehicles	197,147	182,936	182,936
Total	3,250,015	3,275,338	3,335,764
Less: accumulated depreciation and amortization	1,132,524	1,524,205	1,721,284
Property and equipment, net	$ 2,117,491	$ 1,751,133	$ 1,614,480

Depreciation and amortization expense were $384,804 and $399,403 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $200,270 and (unaudited) $197,079 for the six-month periods ended June 30, 2005 and 2006, respectively.

5. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following:

	At December 31, 2004	At December 31, 2005	At June 30, 2006
			(Unaudited)
Advances to employees	45,889	$ 27,033	$ 38,229
Advanced to suppliers	91,800	93,507	33,460
Other current assets	2,771	4,738	4,738
Total	140,460	$ 125,278	$ 76,427

Table of Contents

Advances to employees are non–interest bearing and repayable on demand.

6. Intangible assets, net

Acquired intangible assets consisted of the following:

	At December 31, 2004	At December 31, 2005	At June 30, 2006 (Unaudited)
Trademarks	$ 1,209,482	$ 1,234,720	$ 1,234,720
Less: Accumulated amortization	(362,844)	(493,888)	(555,624)
Total	$ 846,638	$ 740,832	$ 679,096

Amortization expenses were $120,948 and $123,473 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $61,736 and (unaudited) $61,736 for the six–month periods ended June 30, 2005 and 2006, respectively. For each of the next five years, the Company will record annual amortization expenses of approximate $123,500.

7. Accrued expenses and other payables

Accrued expenses and other payables consisted of the following:

	At December 31, 2004	At December 31, 2005	At June 30, 2006 (Unaudited)
Accrued broadcasting fee	$ —	$ —	$ 185,208
Accrued satellite transmission fee	110,067	163,975	145,640
Accrued salary and welfare	190,360	227,658	248,162
Other taxes payable	25,405	42,724	28,258
Litigation settlement liabilities	120,950	123,472	123,472
Advances from employees	18,384	889	—
Advances from third parties	181,818	691	942,205
Other	89,117	99,165	80,062
Total	$ 736,101	$ 658,574	$ 1,753,007

8. Provision for income taxes

The Company and its subsidiary are established in the PRC and are governed by the PRC Enterprises Income Tax and various local income tax laws. They are subject to income tax at a statutory rate of 33% (30% state income tax plus 3% local income tax) on PRC taxable income.

The income tax expenses for the years ended December 31, 2004 and 2005 and for the (unaudited) six–month periods ended 30 June 2005 and 2006 represent deferred income tax charges in respect of the net operating losses.

Table of Contents

The principal components of the deferred income tax asset are as follows:

		At December 31, 2004		At December 31, 2005		At June 30, 2006 (Unaudited)
Deferred tax asset:						
Net operating losses	$	1,330,344		1,329,382		1,456,572
Less: valuation allowance		(1,237,092)		(1,329,382)		(1,456,572)
Deferred tax assets, net	$	93,252	$	—	$	—

There were no significant deferred tax liabilities as of December 31, 2004 and 2005 and (unaudited) June 30, 2006. Due to the uncertainty of the level of PRC statutory income and the lack of operating history, management does not believe the Company will generate taxable PRC statutory income in the near future. As management does not believe that it is more likely than not that all of the deferred tax assets will be realized, a valuation allowance has been established for certain portion of the deferred tax assets as of December 31, 2004 and 2005 and (unaudited) June 30, 2006.

The Company has operating loss carry forwards of $4,031,345 and $4,028,432 as of December 31, 2004 and 2005, respectively. These net operating loss carry forwards expire at various dates through 2010.

Reconciliation between the provision for income taxes computed by applying the PRC enterprise income rate of 33% to loss before provision for income taxes is as follows:

	Year ended December 31,			
		2004		2005
Loss before provision for income taxes	$	(1,018,813)	$	(478,671)
PRC statutory tax rate		33%		33%
Income tax at statutory tax rate		(336,208)		(157,961)
Expenses not deductible for tax purposes:				
Entertainment		17,911		15,877
Certain salaries and employee benefits		126,962		139,407
Promotion fees		57,449		31,400
Change in valuation allowance		133,886		66,474
Provision for income taxes	$	—	$	95,197

Table of Contents

9. Related party transactions

Amounts due from (to) related parties are as follows:

	At December 31, 2004	At December 31, 2005	At June 30, 2006
			(Unaudited)
Due from related parties			
Due from director	7,115	11,077	2,558
Due from affiliates	1,814,224	1,852,081	3,704
Due from an owner	—	—	12,953
Total	1,821,339	1,863,158	19,215
Due to related parties:			
Due to affiliates	227,384	232,129	52,093
Due to an owner	550,547	982,735	—
Total	777,931	1,214,864	52,093

Amounts due from (to) related parties were non–interest bearing and repayable on demand.
During the years ended December 31, 2004 and 2005, and the six–month period ended June 30, 2006, receivables of $634,437 and $14,816, and (unaudited) $209,023, respectively, from two subsidiaries of the shareholder were waived. Accordingly, the amounts were recorded as deemed distributions.
The Company has an operating lease agreement for its office spaces in the PRC with one of its shareholders which expires in January 2007. Rent expenses were $133,335 and $120,888 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $60,444 and (unaudited) $60,444 for the six month periods ended June 30, 2005 and 2006, respectively.

10. Commitments

Operating leases

The Company has operating lease agreements principally for its office spaces in the PRC. These leases expire through July 2007 and are renewable upon negotiation. Rent expenses were $133,335 and $129,305 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $64,653 and (unaudited) $75,709 for the six–month periods ended June 30, 2005 and 2006, respectively.
Future minimum lease payments under non–cancelable operating lease agreements are as follows at December 31, 2005:

2006	$	151,419
2007		21,341
Total	$	172,760

Table of Contents

Future minimum lease payments under non-cancelable operating lease agreements are as follows at June 30, 2006 (unaudited):

Twelve months ending June 30, 2007	$	67,876

11. Segment information

The Company operates in one segment in the production and syndication of financial television program. All of the Company's identifiable assets are located in the PRC. During the years ended December 31, 2004 and 2005 and (unaudited) the six-month periods ended June 30, 2005 and 2006, the Company's chief decision maker was its General Manager.

12. Employee benefit plans

Employees of the Company located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The amounts to be contributed are determined based on 20% of the applicable payroll costs. The amounts paid by the Company to these defined contribution schemes were $39,254 and $50,038 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $19,139 and (unaudited) $24,874 for the six-month periods ended June 30, 2005 and 2006, respectively.

In addition, the Company is required by law to contribute approximately 1.2% to 10% of applicable salaries for medical insurance benefits, housing funds, unemployment, and other statutory benefits. The PRC government is directly responsible for the payment of the benefits to these employees. The amounts contributed for medical insurance benefits were $78,763 and $20,516 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $8,613 and (unaudited) $11,318 for the six-month periods ended June 30, 2005 and 2006, respectively. The amounts contributed for other benefits were not material for the years ended December 31, 2004 and 2005 and for the (unaudited) six-month periods ended June 30, 2005 and 2006.

13. Statutory reserves

As stipulated by the relevant laws and regulations in the PRC, the Company is required to maintain non-distributable reserves which include a statutory surplus reserve and a statutory welfare reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of profit after taxes as reported in the Company's PRC statutory financial statements. The statutory welfare reserve allocations are determined annually at the discretion of the Company's board of directors. Once appropriated, these amounts are not available for future distribution to owners or shareholders. The statutory surplus reserve may be applied against prior year losses, if any, and may be applied to the purchase of capital assets upon the board of directors' approval. There was no appropriation to the statutory surplus reserve and the statutory welfare reserve for the years ended December 31, 2004 and 2005 and (unaudited) for the six-month periods ended June 30, 2005 and 2006.

Table of Contents

14. Litigation

In 2001, the Company entered into an agreement with an advertising company in Beijing (the "Advertising Company"), under which the Advertising Company would act as an agent for the Company in selling advertising space for the period from April 2001 to March 2002. After the advertisement was broadcasted, the Company was required to provide written documents to prove the advertisements had been broadcasted.

In September 2003, the Advertising Company commenced legal proceedings against the Company for failure in fulfilling its obligations. The People's District Court of Beijing City ruled the case in favor of the Advertising Company and demanded the Company to pay the Advertising Company in a total amount of approximately $123,000. In 2005, the Company commenced an appeal in the People's Intermediate Court of Beijing City, but the court ruled in favor of the Advertising Company again and demanded the Company to pay approximately $123,000 together with interest to the Advertising Company as compensation for the breach of contract.

In June 2006, the Company commenced another legal proceedings in the People's District Court of Changsha City against the Advertising Company for outstanding advertising fee of approximately $185,000. As management believes that a loss arising from this matter is probable and can reasonably be estimated, the Company has recorded the estimated expected loss amount of $123,472 (note 7).

In September 2006, the Court ruled in favor of the Company and demanded the Advertising Company to settle the outstanding sum of approximately $185,000 within 10 days of the judgment; however, no payment has been received within the period as the Advertising Company has appealed the judgment.

Table of Contents

Report of independent registered public accounting firm

To the Board of Directors and Owners of
Shanghai Hyperlink Market Research Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Shanghai Hyperlink Market Research Co., Ltd. and its subsidiary (the "Company") as of December 31, 2004 and 2005 and the related consolidated statements of operations, owners' equity and comprehensive income (loss), and cash flows for the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and 2005 and the consolidated results of its operations and its cash flows for the two years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Hong Kong
September 22, 2006

Table of Contents

Shanghai Hyperlink Market Research Co., Ltd.
Consolidated balance sheets

(In U.S. dollars)	December 31, 2004	December 31, 2005	June 30, 2006 (Unaudited)
Assets			
Current assets:			
Cash	$ 238,824	$ 548,236	$ 360,723
Accounts receivable, less allowance for doubtful accounts of $6,187 and $17,638 as of December 31, 2004 and 2005, respectively, and (unaudited) $17,638 as of June 30, 2006	294,613	131,632	132,826
Prepaid expenses and other current assets	19,664	179,668	25,527
Amount due from a related party	28,634	15,525	5,235
Total current assets	581,735	875,061	524,311
Property and equipment, net	63,659	86,950	278,176
Rent deposits	17,281	13,618	52,429
Total assets	$ 662,675	$ 975,629	$ 854,916
Liabilities and owners' equity			
Current liabilities:			
Accounts payable	$ 33,648	$ 28,379	$ 19,956
Accrued expenses and other payables	113,092	249,611	223,201
Deferred revenue	—	17,086	36,270
Amounts due to related parties	25,013	—	57,041
Income taxes payable	53,660	129,168	140,458
Total liabilities	225,413	424,244	476,926
Commitments (Note 8)			
Minority interest	25,534	13,534	—
Owners' equity:			
Registered capital	60,474	60,474	60,474
Additional paid–in capital	30,237	30,237	30,237
Retained earnings	321,017	438,550	278,689
Accumulated other comprehensive income	—	8,590	8,590
Total owners' equity	411,728	537,851	377,990
Total liabilities and owners' equity	$ 662,675	$ 975,629	$ 854,916

See notes to consolidated financial statements

Table of Contents

Shanghai Hyperlink Market Research Co., Ltd.
Consolidated statements of operations

	Year ended December 31,		Six months ended June 30,	
(In U.S. dollars)	2004	2005	2005	2006
			(Unaudited)	(Unaudited)
Marketing research revenue, net	$ 1,558,081	$ 2,353,227	$ 999,805	$ 1,043,068
Cost and expenses:				
Cost of revenue	920,112	1,438,444	639,785	669,047
Selling and distribution	108,133	147,785	93,623	58,451
General and administrative	369,416	467,830	236,969	358,585
Total cost and expenses	1,397,661	2,054,059	970,377	1,086,083
Profit (loss) from operations	160,420	299,168	29,428	(43,015)
Interest income	666	2,501	509	724
Income (loss) before provision for income taxes and minority interest	161,086	301,669	29,937	(42,291)
Provision for income taxes	97,077	153,455	53,252	35,779
Net income (loss) before minority interest	64,009	148,214	(23,315)	(78,070)
Minority interest	7,015	12,534	5,241	5,874
Net income (loss)	$ 71,024	$ 160,748	$ (18,074)	$ (72,196)

See notes to consolidated financial statements

Table of Contents

Shanghai Hyperlink Market Research Co., Ltd.
Consolidated statements of owners' equity and comprehensive income (loss)

(In U.S. dollars)	Registered capital	Additional paid–in capital	Retained earnings	Accumulated other comprehensive income	Total	Comprehensive income (loss)
Balance, January 1, 2004	$ 60,474	$ 30,237	$ 249,993	$ —	$ 340,704	
Net income	—	—	71,024	—	71,024	$ 71,024
Balance, December 31, 2004	60,474	30,237	321,017	—	411,728	
Dividend paid	—	—	(43,215)	—	(43,215)	
Foreign currency translation gain	—	—	—	8,590	8,590	$ 8,590
Net income	—	—	160,748	—	160,748	160,748
Balance, December 31, 2005	60,474	30,237	438,550	8,590	537,851	$ 169,338
Dividend paid (unaudited)	—	—	(87,665)	—	(87,665)	
Net loss (unaudited)	—	—	(72,196)	—	(72,196)	$ (72,196)
Balance, June 30, 2006 (unaudited)	$ 60,474	$ 30,237	$ 278,689	$ 8,590	$ 377,990	

See notes to consolidated financial statements

Table of Contents

Shanghai Hyperlink Market Research Co., Ltd.
Consolidated statements of cash flows

(In U.S. dollars)	Year ended December 31, 2004	Year ended December 31, 2005	Six months ended June 30, 2005 (Unaudited)	Six months ended June 30, 2006 (Unaudited)
Cash flows from operating activities:				
Net income (loss)	$ 71,024	$ 160,748	$ (18,074)	$ (72,196)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Minority interest	(7,015)	(12,534)	(5,241)	(5,874)
Depreciation and amortization	19,175	35,010	14,889	39,514
Provision for doubtful debts	6,187	11,323	3,797	—
Loss on disposal of property and equipment	—	—	—	15
Deferred income tax	—	—	—	—
Changes in operating assets and liabilities:				
Accounts receivable	(128,251)	157,806	(47,197)	(1,194)
Prepaid expenses and other current assets	18,813	(159,594)	(12,993)	154,141
Rent deposits	(17,281)	4,023	4,024	(38,811)
Accounts payable	33,117	(5,971)	(22,762)	(8,423)
Accrued expenses and other payables	24,159	134,160	205,179	(26,410)
Deferred revenue	—	17,086	—	19,184
Income taxes payable	40,996	74,387	16,055	11,290
Cash provided by operating activities	60,924	416,444	137,677	71,236
Cash flows from investing activities:				
Purchases of property and equipment	(40,605)	(56,972)	(12,727)	(238,415)
Amount due from a related party	18,298	13,706	(10,675)	10,290
Cash used in investing activities	(22,307)	(43,266)	(23,402)	(228,125)
Cash flows from financing activities:				
Amounts due to related parties	(18,822)	(25,535)	19,769	57,041
Dividend paid	—	(43,215)	(37,042)	(87,665)
Cash used in financing activities	(18,822)	(68,750)	(17,273)	(30,624)
Effect of exchange rate changes	—	4,984	4,984	—
Net increase (decrease) in cash	19,795	309,412	101,986	(187,513)
Cash, beginning of the year/period	219,029	238,824	238,824	548,236
Cash, end of the year/period	238,824	548,236	340,810	$ 360,723
Supplemental disclosure of cash flow information:				
Income taxes paid	$ 54,304	$ 79,068	$ 37,172	$ 24,489
Interest paid	$ —	$ —	$ —	$ —

Supplemental schedule of non−cash investing and financing activities
During the six−month period ended June 30, 2006, the Company purchased the remaining 45% equity interest of Guangzhou Hyperlink for $nil consideration. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	$30,054
Cash paid	—
Liabilities assumed	$22,394

See notes to consolidated financial statements

Table of Contents

Shanghai Hyperlink Market Research Co., Ltd.
Notes to consolidated financial statements
(In U.S. dollars)

1. Organization and principal activities

Shanghai Hyperlink Market Research Co., Ltd ("Shanghai Hyperlink") was established in the People's Republic of China (the "PRC") on August 6, 1997 for a term of 20 years. Shanghai Hyperlink and its subsidiary (collectively the "Company") primarily engage in market research in China and provide services including the study of market characteristics, consumer preferences and opinions with respect to advertising and media content, and business and technology issues.

Shanghai Hyperlink's majority–owned subsidiary, Guangzhou Hyperlink Market Research Co., Ltd. ("Guangzhou Hyperlink") was established on July 4, 1997 by independent third parties. During 2003, Shanghai Hyperlink acquired a 55% equity interest of Guangzhou Hyperlink at cash consideration of $30,237. On March 10, 2006, Shanghai Hyperlink acquired the remaining 45% equity interest of Guangzhou Hyperlink at $24,694; however, the purchase price was subsequently waived by the vendor.

Beijing Taide Advertising Co., Ltd., a company controlled by Xinhua Finance Media Limited, ("XFM") acquired a 51% interest in Shanghai Hyperlink on August 1, 2006 and the remaining 49% on September 15, 2006.

2. Summary of principal accounting policies

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its majority–owned subsidiary. All significant intercompany transactions and balances have been eliminated on consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements included allowance for doubtful accounts, useful lives of property and equipment and impairment of long–lived assets.

Table of Contents

(d) Revenue recognition

The Company generates revenues from data research and executes contracts that govern the terms and conditions of each arrangement. Research service revenues are recognized under the completed performance method which is when the reported data is accepted by the customer. Furthermore, the Company's revenue recognition determines the timing of subcontractor expenses that are deferred and expensed to operations as the related revenue is recognized. The Company evaluates the recoverability of deferred subcontractor expenses at each balance sheet date. Payments received in advance are deferred until earned and such amounts are reported as deferred revenue on the accompanying consolidated balance sheets.

Revenues are recorded net of applicable business taxes totaling $90,231 and $136,749 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $58,254 and (unaudited) $60,773 for the six−month periods ended June 30, 2005 and 2006, respectively.

The Company extends credit based upon an evaluation of the customers' financial condition and collateral is not required from such customers. Allowances for estimated credit losses, rate adjustments and discounts are generally established based on historical experience.

(e) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight−line basis over the following estimated useful lives:

Leasehold improvements	Lesser of 3 years or lease term
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

(f) Impairment of long−lived assets

The Company evaluates its long−lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss as the excess of carrying amounts over fair value of the assets. There were no impairment losses recorded in the years ended December 31, 2004 and 2005 and (unaudited) the six−month periods ended June 30, 2005 and 2006.

(g) Income taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the

Table of Contents

relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non−current based on their characteristics.

(h) Foreign currency translation

The functional currency of the Company is Renminbi ("RMB"). Transactions dominated in other currencies are translated into RMB at the average rates of exchange prevailing during each period. Monetary assets and liabilities denominated in other currencies are translated into RMB at rates of exchange in effect on the balance sheet dates. Nonmonetary assets and liabilities are remeasured into RMB at historical exchange rates.

The Company uses the U.S. dollar as its reporting currency. Accordingly, assets and liabilities are translated using exchange rates in effect at each balance sheet date and average exchange rates for the period are used for revenue and expense transactions.

Currency transaction gains and losses are recorded in the consolidated statements of operations. Translation adjustments are recorded in accumulated other comprehensive income, a component of owners' equity.

(i) Concentration of credit risk

The following customers contributed 10% or more of the Company's revenues:

	Year ended December 31,		Six months ended June 30,	
	2004	2005	2005	2006
			(Unaudited)	(Unaudited)
Customer A	*	$ 277,926	*	*
Customer B	*	*	$ 102,685	*
Customer C	*	*	*	$ 157,496

** Represents less than 10% of revenue.*

Three customers, two customers and four customers as of December 31, 2004 and 2005 and (unaudited) June 30, 2006, respectively, accounted for 10% or more of the Company's accounts receivable balance, representing an aggregate of 45%, 28% and (unaudited) 61% of the Company's accounts receivable balance at December 31, 2004 and 2005 and (unaudited) June 30, 2006, respectively. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts and such loss have been within management's expectations.

All of the Company's revenue for the years ended December 31, 2004 and 2005, and (unaudited) six−month periods ended June 30, 2005 and 2006 was generated from the PRC.

(j) Unaudited interim financial information

The financial information with respect to the six−month periods ended June 30, 2005 and 2006 is unaudited and has been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, such unaudited financial information contains all adjustments, consisting of only normal recurring adjustment, necessary for a fair presentation

of the results of such periods, The results of operations for the six−month period ended June 30, 2006 are not necessarily indicative of results to be expected for the full year.

(k) Recent accounting pronouncement

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *"Share−Based Payments"* or SFAS 123R. This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, *"Accounting for Stock Issued to Employees"* to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee service received in exchange services received in exchange for an award of equity instruments based on the grant−date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award — the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS 123R is effective for the fiscal year beginning January 1, 2006. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

In May 2005, the FASB issued SFAS No. 154, "*Accounting Changes and Error Corrections*," which replaces Accounting Principles Board Opinions No. 20 "*Accounting Changes*" and SFAS No. 3, "*Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28.*" SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections made in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*" ("FIN 48"), which clarifies the accounting for uncertainty in income tax position in FASB Statement No. 109, "*Accounting for Income Taxes*". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The company will adopt FIN 48 in the first quarter of 2007. The Company has not determined its impact, if any, of FIN 48 on its financial position, results of operations and cash flows.

In September, 2006 the FASB issued FASB Statement No. 157, ("SFAS 157"), *("Fair Value Measurement")*. SFAS 157 addresses standardizing the measurement of fair value for companies who are required to use a fair value measure of recognition for recognition or disclosure purposes. The FASB defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure date." SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, of SFAS 157 on its financial position, results of operations and cash flows.

Table of Contents

3. Property and equipment, net

Property and equipment, net consisted of the following:

		At December 31, 2004		At December 31, 2005		At June 30, 2006
						(Unaudited)
Leasehold improvements	$	56,309	$	77,926		117,437
Furniture, fixtures and equipment		83,645		121,920		222,810
Motor vehicles		—		—		90,082
Total		139,954		199,846		430,329
Less: accumulated depreciation and amortization		76,295		112,896		152,153
Property and equipment, net	$	63,659	$	86,950	$	278,176

Depreciation and amortization expense was $19,175 and $35,010 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $14,889 and (unaudited) $39,514 for the six−month periods ended June 30, 2005 and 2006, respectively.

4. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following:

		At December 31, 2004		At December 31, 2005		At June 30, 2006
						(Unaudited)
Rent deposits		12,703		45,122		7,698
Advance to third party		—		123,472		—
Other current assets		6,961		11,074		17,829
Total	$	19,664	$	179,668	$	25,527

Advance to third party was unsecured, non−interest bearing and fully settled after balance sheet date.

Table of Contents

5. Accrued expenses and other payables

Accrued expenses and other payables consisted of the following:

		At December 31, 2004		At December 31, 2005		At June 30, 2006
						(Unaudited)
Accrued salary and welfare		73,970		94,242		86,718
Advance from employees		—		61,440		—
Other taxes payable		35,756		76,629		124,056
Other		3,366		17,300		12,427
Total	$	113,092	$	249,611	$	223,201

6. Provision for income taxes

The Company and its subsidiary are established in the PRC and governed by the PRC Enterprises Income Tax and various local income tax laws. They are subject to income tax at a statutory rate of 33% (30% state income tax plus 3% local income tax) on PRC taxable income.
Provision for income tax comprises of the following:

	Year ended December 31,				Six months ended June 30,			
		2004		2005		2005		2006
						(Unaudited)		(Unaudited)
Current taxes	$	97,077	$	153,455	$	53,252	$	35,779
Deferred taxes		—		—		—		—
Total	$	97,077	$	153,455	$	53,252	$	35,779

There were no other significant deferred tax assets or liabilities as of December 31, 2004 and 2005, and (unaudited) June 30, 2006.
Reconciliation between the provision for income taxes computed by applying the PRC enterprise income rate of 33% to income before income taxes is as follows:

	Year ended December 31,			
		2004		2005
Income (loss) before provision for income taxes	$	161,086	$	301,669
PRC statutory tax rate		33%		33%
Income tax at statutory tax rate		53,158		99,551
Expenses not deductible for tax purposes:				
Salaries and cmployee benefits		41,877		49,013
Other		2,042		4,891
Provision for income taxes		97,077	$	153,455

Table of Contents

7. Related party transactions

Amounts due from (to) related parties were as follows:

	December 31, 2004	December 31, 2005	June 30, 2006
			(Unaudited)
Due from related party			
Due from an owner	$ 28,634	$ 15,525	$ 5,235
Due to related parties:			
Due to an owner	$ 25,013	—	$ 7,337
Due to a director	—	—	$ 49,704
Total	$ 25,013	—	$ 57,041

Amounts due from (to) related parties were non–interest bearing and payable on demand. Amounts due from related parties are expected to be collectable therefore no allowance was considered necessary as of December 31, 2004 and 2005 and (unaudited) June 30, 2006.

8. Commitments

Operating leases

The Company has operating lease agreements principally for its office spaces in the PRC. These leases expire through June 2008 and are renewable upon negotiation. Rent expenses were $143,545 and $158,512 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $89,575 and (unaudited) $126,603 for the six–month periods ended June 30, 2005 and 2006, respectively.

Future minimum lease payments under non–cancelable operating lease agreements are as follows at December 31, 2005:

2006	$ 118,149
2007	54,471
2008	27,235
Total	$ 199,855

Future minimum lease payments under non–cancelable operating lease agreements are as follows at June 30, 2006 (unaudited):

Twelve months ending June 30, 2007	$ 295,181
Twelve months ending June 30, 2008	147,907
Total	443,088

Table of Contents

9. Segment information

The Company operates in one segment in the marketing research. All of the Company's identifiable assets are located in the PRC. During the years ended December 31, 2004 and 2005 and (unaudited) the six–month periods ended June 30, 2005 and 2006, the Company's chief decision maker was its General Manager.

10. Employee benefit plans

Employees of the Company located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The amounts to be contributed are determined based on 20% of the applicable payroll costs. The amounts paid by the Company to these defined contribution schemes were $20,170 and $28,697 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $13,435 and (unaudited) $18,373 for the six–month periods ended June 30, 2005 and 2006, respectively.

In addition, the Company is required by law to contribute approximately 1.2% to 10% of applicable salaries for medical insurance benefits, housing funds, unemployment, and other statutory benefits. The PRC government is directly responsible for the payment of the benefits to these employees. The amounts contributed for medical insurance benefits were $16,464 and $23,357 for the years ended December 31, 2004 and 2005, respectively, and (unaudited) $10,882 and (unaudited) $14,933 for the six–month periods ended June 30, 2005 and 2006, respectively. The amounts contributed for other benefits were not material for the years ended December 31, 2004 and 2005 and (unaudited) for the six–month periods ended June 30, 2005 and 2006.

11. Statutory reserves

As stipulated by the relevant laws and regulations in the PRC, the Company is required to maintain non–distributable reserves which include a statutory surplus reserve and a statutory welfare reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of profit after taxes as reported in the Company's PRC statutory financial statements. The statutory welfare reserve allocations are determined annually at the discretion of the Company's board of directors. Once appropriated, these amounts are not available for future distribution to owners or shareholders. The statutory surplus reserve may be applied against prior year losses, if any, and may be applied to the purchase of capital assets upon the board of directors' approval. There were no contribution to the statutory surplus reserve and the statutory welfare reserve for the years ended December 31, 2004 and 2005 and (unaudited) for the six–month periods ended June 30, 2005 and 2006.

12. Subsequent events

On September 22, 2006, pursuant to a Share Subscription Agreements in Respect of Shares in the Capital of Xinhua Finance Media Limited, XFM issued 1,613,169 class A common shares to an individual in exchange for his entering into Deeds of Non–Competition Undertaking and Release with XFM and Shanghai Hyperlink for a term of four years.

Table of Contents

23,076,923 American Depositary Shares
Representing 46,153,846 Common Shares

xinhua finance media

Xinhua Finance Media Limited

Prospectus

JPMorgan **UBS Investment Bank**

CIBC World Markets **WR Hambrecht + Co** **ABN AMRO Rothschild**

March 8, 2007

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, ADSs only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our ADSs.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the ADSs or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

Until April 2, 2007, all dealers that buy, sell or trade in our ADSs, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.